

**FACTORS AFFECTING TAX COMPLIANCE AMONG SMALL AND MEDIUM
ENTERPRISES (SMES) IN NAKURU COUNTY IN KENYA: A SURVEY OF SMES IN
NAIVASHA SUB COUNTY**

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DECLARATION

This project is my original work and has not been presented for a degree in any other university.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This project document is devoted to my family for ethical help, their steady support and showing extraordinary commitment during my study. This research study is dedicated to individual small and medium enterprise owners and managers who aim at improving the standard of business operations by being tax compliant. I specifically dedicate it to management of Kenya Revenue Authority for the recent efforts in improving the tax filling process and the foundation being laid for future prosperity of Kenyan tax payer.

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ABSTRACT

The study purpose was to establish factors affecting tax compliance among SMEs in Naivasha Sub-County, case study of Naivasha town Central Business District (CBD). The study specific objectives were: To determine the effect of tax knowledge on tax compliance amongst SMEs in Naivasha Sub-County; to establish the effect of tax rates on tax compliance among the SMEs in Naivasha Sub-County; to determine the effect of filing procedures on tax compliance amongst SMEs in Naivasha Sub-County and to establish the effect of tax accountability on tax compliance among the SMEs in Naivasha Sub-County. Research study adopted descriptive research design. Data collection was done using questionnaires that were pilot tested first before administration and the analysis was carried out with the aid of SPSS and descriptive statistics and results are presented in table and figures. The study found out that taxpayer's knowledge, tax rate, filling procedures and accountability are among the factors that affects tax compliance among SMEs. The study established that Tax data, tax learning tends to advance tax compliance than tax organization and thus informing taxpayers on taxation laws and controls by coordinate free symposia and courses. The study also established that Tax rates are too high, fines and penalties charged for late fillings are stiff, the cost required for filling the tax returns is high, hiring a profession to do the fillings as expensive and that the number of government bodies involved in tax collection are many and this has led to poor tax compliance. The study also established that concluded that procedures for tax filing are too complicated, the tax complexity of laws contribute to wrong tax returns, forms taxpayer has to present and combining filings number per year are numerous, there are delays in electronic filing and payment systems. Research study concluded that low level of accountability and transparency in the use of public resources creates distrust of the tax system, misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion, inadequate laws reduces the accountability in public institutions that affects the level of compliance among the taxpayers if the government uses the tax it collects for development and provision of quality services and Tax payers are apprehensive of the need for paying taxes when governments are not accountable hence the low level of tax compliance. The study concluded that tax rates, PAYE, tax penalties and fines contribute greatly to tax compliance and finally tax compliance cost have the most significant influence on tax compliance. Tax threshold for SMEs should be reduced to a maximum of four tax returns per year and should have a possibility of moving it towards annual or after every six months and KRA should consider simplifying returns by regularly reviewing tax laws. The study also concludes that tax compliance can be influenced by provision of tax payer education on the social responsibility for paying taxes and taxpayer's intention would be to comply. There are more gains in assisting compliant taxpayers in meeting their fiscal obligation instead of spending more resources on a few non compliers. SMEs are able to understand tax obligation where there is tax benefits and tax benefits that are received in real time. The study recommended that tax payers learning ought to be emphasized since tax data, tax learning tends to advance tax compliance than tax organization. The study recommend that tax rates should be reduced since expansion in tax rates prompts higher development, appropriation and offering costs which prompt higher costs and accordingly customers change their purchasing conduct, tax laws should not be complex so as to not contribute to wrong tax returns and that recommended there should be Tax accountability and transparency with greater emphasis on the various kinds of taxes such as firm's income tax, individual income tax, value added tax, petroleum profit tax and stamp duties since they are perceived to have a direct correlation with the Gross Domestic Product (GDP).

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ACRONYMS AND ABBREVIATIONS

CBD	Central Business District
GDP	Gross domestic Product
KRA	Kenya Revenue Authority
SAPs	Structural Adjustment Programmes
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Sciences
USD	United States Dollars Business
VAT	Value-added tax

OPERATIONAL DEFINITION OF TERMS

Small and Medium Enterprises	Those entities with full-time employees not exceeding 100 or annual sales turnover not exceeding Ksh 150 million (Ndemo , 2015).
Tax Compliance	The Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner (Kirchler, 2007).
Tax Evasion	It refers to the conscious or unconscious action and behavior of a person who is liable to pay tax but who fails to fulfill this duty by either under reporting his tax liability or failing to account for his income generating activities altogether (Kirchler, 2007).
Tax Information	The knowledge or facts provided about taxes (Adesina and Obazee, 2016).
Tax Rate	The tax rate is the tax imposed by the federal government based on an individual's taxable income or a corporation's earnings. Kenya uses a progressive tax rate system, where the percentage of tax increases as taxable income. It can also be defined as the percent of income paid as tax (KRA, 2011).
Tax	A compulsory financial contribution imposed by a government to raise revenue, levied on the income or property of persons or organizations, on the production costs or sales prices of goods and services (Kirchler, 2007).

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter section and outlined the background information on factors affecting tax compliance among SMEs Naivasha Sub-County, case study of Naivasha town CBD. The chapter further highlights the, study objectives, research questions, statement of problem, scope and study implication.

1.1 Background of the Study

Tax Compliance can be characterized as how much a taxpayer goes along (or neglects to go along) with nation tax rules, for instance, income declaration, return filing, and paying assessment due in time. While Tax evasion can be characterized as the failure by a man or business to follow the tax commitments. It is a genuine test to tax authorities in both the developing and developed nations. It decreases assets mobilization that administrations need to put resources into basic regions of social and self-improvement including wellbeing, training and infrastructure advancement (Cummings, 2007). In 2011, it cost governments worldwide around 5.1 % of their GDP. In Europe tax avoidance constitutes around 8% of the GDP of economies in the area. In South and North America, tax evasion costs economies 2% and 10 percent of GDP separately. Indeed, even in most developed economies on planet, tax evasion erodes income accumulation (Rile, 2011).

Over 183 billion euros that is estimated to 242 million dollars has been lost in Italy with relation to tax evasion within one year and debt of almost two trillion representing just over 10 years of tax evasion. Nation such as Italy and Greece has pledged seriousness about evasion of tax and money exchanges for merchandise and enterprises falling underneath the radar of authorities. Germany and Britain consented to arrangement with Switzerland about recouping tax income from bank accounts retained in Swiss banks by their subjects. South America has worldwide big black market economy compared to its G.D.P. taken after by Europe and Africa, where salary avoided assessment experts totaling 20.5percentof G.D.P, contrasts and 10.8 percent in North America (Association, 1998). Tanzania, Kenya, and Uganda, tax evasion is high being the component of GDP. Uganda loses minimal sum in evaded taxes: In 2011, it lost 856 million

United States dollars, trailed by Tanzania at 1.9 billion United States dollars; Kenya loses somewhat more than 2 billion USD. In 2011, in Kenya the informal economy makes over 33% of the country's GDP and spoke to 7% of aggregate government consumption. The taxation rate in Kenya would accordingly be high, remaining at around 20.9%. On the off chance that the Kenya government is to expand its social consumption, and there need to eliminate tax evasion in the informal economy (Griffiths, 2005).

In Kenya the informal sector is fairly large accounting for an estimate of 25 percent of the national GDP. It has been noted that a sustained growth in the sector over time with the initial estimates 910,000 people are employed up to two million employs. The informal economy in Kenya employed an estimate of 8.3 million people with an approximate seventh five percent of the nation's labor force being in the non- agricultural private sector Economic Survey for the year 2010.

1.1.1 Determinants of Tax Compliance

It is basic to build up wide data in regards to the determinants compliance to tax in order to have the capacity to create measures for battling tax avoidance and evasion. The societal spirit to conform to assessment may upgrade a requirement of self to tax compliance. Nonetheless, tax morale, state of mind and conduct aren't set up, particularly in nations with where the culture is not to pay tax (Braughtigam *et.al.*, 2008). Absence of obligation and receptiveness in funds use from people in general develop doubt amongst taxpayers towards arrangement of tax assessment and organization, subsequently influencing eagerness of levy payment by taxpayers. Because of abnormal amounts of fraud, taxpayers are not ready to learn whether taxes paid are utilized as a part of the financing of public merchandise and provision of services, prompting an adjustment in their ability to pay henceforth the probability they may avoid taxes. In the event that the lawful framework does not maintain the rule of law it will prompt decreased straightforwardness and cultivate doubt among residents. Nationals will never again have the will fund administration through tax compliance and therefore come about to dodging tax liabilities (Kirchler, 2007).

There is an immediate relationship of size and sort of punishments that non-compliers and tax compliance level (Fishlow & Friedman, 1994). Deficiencies in tax accumulation might be consequence of frail limit of framework to identify and arraign tax violators. Utilization of relatives in SMEs through unpaid work likewise diminishes likelihood of recognition in this way

affecting the choice of taxpayer with respect to compliance. Chipeta (2010) identifies the causes of tax evasion as the tax rate that are huge in nature that gives SMEs a huge burden that negatively affect their profit margins therefore most of the SMEs opts to evade tax. Small tax payers face discrimination under the regular tax system since the compliance requirements does not matter regardless to the size of the enterprise as well as tax rate and also the cost of compliance. If the government can reduce compliance cost the tax rate will increase hence the profit margin will go up, this will increase the government tax revenue since the simplified provisions for SMEs will reduce the size of formal economy and the number of noncompliance will increase with regard to registered tax payers (Vasak, 2008). The operations of SMEs usually have an imperious controlling atmosphere with plethora of regulating organizations, high port charges, numerous charges, burdensome importing procedures and several taxes that constantly put pressure on the operations (Kinyua, 2014).

The complex nature of the governing structure and the complex tax regime is a challenge and burdens most of the SMEs that determine their compliance level with affects their growth and performance. The tax system imposes bigger expenses for the SMEs that affect their daily operations (Masato, 2009). Tax system that is weak in nature has low efficiency, waste taxpayers time as well as authority staff and high collection charges (Farzbod, 2007). Most of the SMEs are affected disproportionally by the compliance costs that are time higher than large organizations (Weichenrieder, 2007). In Kenya, there is no Act of Parliament that gives the definition of SMEs. Even the Income Tax chapter 470 and the Turnover Tax Rules which govern taxation of the SMEs neither provide for any definition nor mention any of the terms used to refer, mean or represent SMEs. The income tax merely refers under section 12C to persons and the thresholds which determine persons liable to pay turnover tax. Rule 3(1) of Turnover Tax Rules provides: an individual who's earning from the enterprise is above 500,000 and does not exceed 5,000,000 within a calendar year shall be liable to pay turnover tax. Probably, the Act deliberately avoided the use of and to define the term SME after recognizing the difficulty in defining the term. Use of thresholds only to define persons liable to pay turnover tax is a more convenient way of avoiding protracted arguments as to what the term SME mean and to whom it refers (Kinyua, 2014).

The newly enacted Micro-Finance Act No. 19 of 2006 which came into operation on 2nd May, 2008 does not give a definition of SMEs or Micro or low income households whom it is intended

to serve. The Act only makes reference to Micro or low income households without providing a definition of the terms or what they represent. Indeed, in Kenya the definitions are left to and are found in Government policy papers, development plans, budgets and Kenya Revenue Authority (KRA) Unified Tax System [hereafter the UTS] initiative and reports. The terminologies used in Kenya are; the informal sector or the now popularly known Jua kali sector or MSME or MSE. MSME is recognized abbreviation for Micro, Small and Medium Enterprises. The UTS initiative defines MSME thus; any business that employs between one to nine, ten to forty-nine and fifty to ninety-nine as micro, small and medium enterprises correspondingly (Wanjiru, 2010).

These definitions provided within the context of Kenya are also varying. Even within the same Government Reports, Sessional Papers, Development Plans, Baseline Surveys and United Tax System Reports are provided different definitions. The Acts of Parliament including the Interpretations and General Provisions Act 24 are silent on the definition of SMEs. But of importance is that, all these definitions have common factors which include, though not limited to; the number of employees in, the nature of the business of, sales made, capital, and assets owned or income made by entities or firms or persons which constitute SMEs. In this paper, reference to SMEs or informal or Jua kali sector shall be reference to these factors which shall accordingly define and represent SMEs as persons envisaged under the Income Tax, Microfinance Act, relevant Government Reports, Sessional Papers, Development Plans, Baseline Surveys and United Tax System Reports (Kinyua, 2014)

1.1.2 Tax Compliance in Kenya

According to Brown and Mazur (2003) explains tax compliance as a complex term to define because it's a multi-faceted measure. But they went further and define it in three aspects that include reporting, payment and filing compliance. Kircler (2007) defines tax compliance as taxpayer's willingness to pay tax with outermost honesty while Cummings (2007) defines tax evasion as the failure by taxpayer to comply with tax obligation. The complex on tax remittance is seen on the following perspectives; the details required are too much in terms tax rules involved especially when it comes to computerized aspect of tax compliance decision (Richardson, 2006). Andreoni, Erard and Feinstein (1998) define tax compliance as willingness of taxpayer to obey tax laws in order for a country to obtain its economy equilibrium. Kircler (2007) also defines tax compliance as taxpayer's willingness to pay tax with outermost honesty.

Cummings (2007) defines tax evasion as the failure by taxpayer to comply with tax obligation. According to Rile (2011) tax evasion undermines revenue collection; it diminishes government mobilization of resources.

According to William and Round (2009) tax penalties, inadequate understanding, high tax rates and high cost of compliances are some of the factors that lead to tax fraud and tax evasion. SMEs will fail to comply with tax laws either unwilling or willingly. Emerging economies should ensure that tax system are efficient and effective for SMEs and don't affect them negatively. The challenge that most authorities face are poor tax system and policies. The main objective of tax policy is to abide with tax laws (James & Alley, 2004). SMEs in Kenya operates in operate in an informal sector economic survey report 2016 indicates that the sector has semi organized and unregulated activities that are smaller.

Understanding and interpreting tax laws determines SMEs ability and willingness to comply. Attitudes towards tax compliance can be improved through enhancement of taxation understanding, when SMEs have a positive attitude in comparison with one who have never attended any tax related course workshop, or seminar awareness necessary important especially in areas that relate to taxation laws (Mohd, 2010). OCED (2001) categories compliance into two that is technical and administrative compliance while Cobham (2005) explains that tax compliance affects emerging economies and it's a major challenge and this has promoted and encouraged radical tax reforms in these economies. Studies have established that regulatory burdens fall disproportionally on SMEs (Pope & Abdul-Jabbar, 2008). Kenya is positioned amongst low-salary nations or low compliance nations with hard undertaking of guaranteeing productive and compelling tax administration. With a specific end goal to guarantee compliance to tax, subsequently raising more income. Kenya Revenue Authority administers tax in Kenya. Built up through Parliament act on July first 1995 (Cap 469). "KRA should advance compliance with Kenyan tax guarantee dependable requirement by exceptionally energetic and proficient staff in this manner amplifying income gathering in any event conceivable cost for Kenyans social-monetary prosperity (CIAT, 2006).

Kenya presented Tax Modernization Program in 1986 with the expectation this would, in addition to other things, upgrade income accumulation, enhance tax organization and diminish compliance and gathering expenses (Wanjiru, 2010). Despite many tax changes, code of tax in

Kenya's is as yet intricate and lumbering, described by uneven and out of line taxes, a thin tax base with high tax rates and rates scatterings as for exchange, and low compliance. Extra difficulties incorporate tax frameworks with structures and rates that (1) taxes are hard to oversee and consent to; (2) are inert to development and optional approach thus low profitability; (3) raise little income yet present genuine monetary bends; (4) treat work and capital in comparable conditions in an unexpected way; and (5) are particular and skewed for those with capacity to defeat tax organization and requirement framework (Okello, *et al*, 2005).

There are various difficulties hindering proficient setup of a viable tax framework in Kenya. Economy structure, for example, proportion of formal versus informal sectors; extent of agricultural sector post challenges in tax outline and organization. Different obstructions include: nullification of tax occasions, high viable insurance, high scattering of levy rates, point by point and inflexible custom principles, poor reaction of VAT to changes, feeble ability to process substantial volumes of profits and discounts for zero-evaluated exchanges. Also, Kenya's tax framework is difficult as far as time taken to plan and submit government forms (Karingi, *et al*, 2005).

The business environment in Naivasha is majorly dominated by informal enterprises which fall into the three sectors manufacturing, trade and services industry. The informal sector in Nakuru County plays a greater role in generating employment for a large promotion of the population. There is however challenges between the county government and informal workers since their activities are not licensed and they do not pay taxes. This presents a challenge not only for the county government but also to Kenya revenue authority. The Nakuru county fiscal strategic paper (2015) reveals that the county government of Nakuru targets to achieve revenue growth from 254 Million in 2014/2015 financial year to 338 Million in 2017/2018 financial year from single business permits. This is based on assumptions of growth of SMEs on the existing ones as well as thriving on new enterprises besides, the inclusion of more informal sector enterprises into the tax net would be necessary to achieving the expected outcome.

1.1.3 The Concept of Small and Medium Enterprise

SME is a generic term which stands for and is the recognized abbreviation of Small and Medium Sized Enterprises. These enterprises have been associated with informality and they have hence

been generally referred to as the informal sector. The notion that informal sector has been in discussion since its inauguration in African in early 1970's but defining the sector still is a major problem. However, it may be inferred that the various definitions of SME put forth were greatly influenced by one or more of the three schools of thought which are highly regarded to have laid the foundation on the concept of the informal sector. Although there is no universally acceptable definition of SMEs, there are certain common factors which are discernible from all available definitions on SMEs. These include, but not limited to, the number of employees in, sales made, capital and assets owned by entities or firms or persons which constitute SMEs (Lans, Hulsnik, & Mulder, 2008). In Kenya SME or MSME refers to and means Jua kali or informal sector. According to the Government, any business that employs between one to nine, ten to forty nine and fifty to ninety-nine as micro, small and medium enterprises correspondingly. For purposes of this paper, these common factors shall become the basis of identification of, to mean and refer to SMEs. The composition of the inventory of SMEs target groups outlined in the paper for tax base broadening has substantially drawn from these features (Kinyua, 2014).

Hall and Harvie (2003) explains that SMEs are important in a country economic development and growth in that they create jobs and build a flexible and adaptable base for competitive economy. The Economic Survey Report (2016) indicated that SMEs contribute to 70% of Gross Domestic Product in Kenya and the sector employs about 80%. The following comparative analysis of definitions on SMEs underscores primacy of these common features in defining the subject and scope of study of this paper. Significantly, the paper will use the terms SMEs, MSME, Jua Kali and Informal sector interchangeably to mean, refer to and represent SMEs. The informal sector had grown and become widespread, the Government's concern shifted and now focused on how to tax the sector. It is after it dawned on the Government that, although the sector controls a wide business population, employs a considerable number of people and generates an enormous income it has remained outside the tax net and has not produced revenue corresponding to their income. In Kenya, the SME segment is very extensive, evaluated at 34.3percent and representing 77 percent of work statistics. More than 60 percent of people working in SMEs are young, aged between 18 to 35 years, half being women (Ouma, *et al*, 2009). The initial 1993 SMEs benchmark overview uncovered around 910,000 small micro enterprises were utilizing approximate 2million individuals. Second SME standard overview (1995), assessed measure of SME segment at 708,000 endeavors utilizing up to 1.2m individuals.

Contrasted with alternate areas of the economy, commitment of small micro enterprises part to nation's GDP expanded from 13.8% in 1993 to more than 18% of everyone. These SMEs are part of the main contributors to the economy of the Embu County as they create employment and purchase products hence directly supporting livelihoods. According to Ndemo (2015), most SMEs do not register for tax purposes and most of them operate without licenses from both the county and national governments. Thus, tax compliance issue is a serious problem in most of the SMEs. In addition, millions of shillings are generated from the SMEs business operations on daily basis, which is subject to 999 (Sessional Paper No.2 of 2005). SMEs in Naivasha Sub-County range from agricultural producers, tourist hubs, supermarkets, restaurants, educational institutions, health institutions, general traders, professional service firms among others (Naivasha Sub-County Government Records, 2017). These SMEs are part of the main contributors to the economy of the Naivasha Sub-County as they create employment and purchase products hence directly supporting livelihoods. According to Ndemo (2015), most SMEs do not register for tax purposes and most of them operate without licenses from both the county and national governments. Thus, tax compliance issue is a serious matter in most of the SMEs. In addition, millions of shillings are generated from the SMEs business operations on daily basis, which is subject to taxation by the government however; statistics indicate that small businesses in Kenya constitute the base group of hard-to-tax taxpayers (Lumumba, *et al*, 2010). Thus, an investigation on the factors affecting tax compliance by SMEs in Naivasha Sub-County in Kenya is vital.

1.2 Statement of the Problem

Taxation is an important source of income for both the national and county government for its a vital stream of income for government's improvement ventures. Be that as it may, tax compliance among SMEs is poor. Tax evasion hampers government income accumulation in this manner wastefulness in Government spending since it decreases the limit of the state to assemble household incomes, assets that are required for speculations. Little and medium undertakings (SMEs) are noteworthy for financial development and generate taxable income for a country. SMEs are less tax compliant in contrast with expansive organizations and are viewed as the 'difficult to assess aggregate from the informal part (Akinboade, 2015). A nation can develop a positive tax culture when taxpayers and the revenue collection authority discharge their

responsibilities. The defiant nature of taxpayers, disillusion and demotivation is always as result of inadequate understanding of the tax obligation imposed on taxpayer. Tax evasion is on the challenges that a nation faces that hampers country development. KRA Annual report (2013) shows that authority lost ksh 108 billion that was directly attributed to the informal sector. In Kenya generally the informal sector remains untaxed and the SMEs in the sector are continuously expanding and they have the potential to bridge the deficit that is always evasive to KRA.

According to Toggler (2003) a major concern issues for policy makers in emerging economies is the low levels of tax compliance. That is attributed to limited capacity of the government to collect and raise revenue for expenditure and recurrent expenses. Fjedstad and Ranker (2003) explains taxpayer education is a tool that is designed to help taxpayers to understand tax laws and procedures that involves training authority staff for provision of education, counselling and support to the taxpayer. In 2015 Kenya Revenue Authority introduced online filling whose main aim was to broaden the tax base and to increase revenue collection. This called for training and educating taxpayers in the use of IT system for tax administration as well as increase compliances level of the taxpayer. User education has the potential to increase level of compliance especially for SMEs and they will be aware of their responsibilities as well as the sanctions that will be imposed to them if they don't comply with tax laws.

A number of studies have been accomplished in developing nations in regard to tax compliance, more so in Kenya. The list of these studies includes studies by Lumumba, Wanjohi and Magutu (2010) analyzed how taxpayers attitude and influences impacts compliance conduct among SMEs in Kerugoya town and reasoned that majority taxpayers see Kenyan tax framework as out of line. This on grounds that majority respondents varied payment of decent amount of tax; which neighbors and companions were filing. Magiya (2016) directed an examination on tax compliance determinants amongst little and medium estimated undertakings in Nairobi east tax district and found that an expansion in the taxpayers comprehension of the assessment laws and the tax framework as well as an increase in government accountability with regards to provision of public good and services results into higher compliance levels, thus more of funds through revenue collection. Thiga and Muturi (2015) conducted a study on Factors That impacts Tax Laws compliance amongst Kenyan SMEs and found tax rates and tax compliance expenses are highest tax compliance contributing factor. These studies, there has not been one that focused on

establishing the factors affecting tax compliance among SMEs in Naivasha Sub-County. The business environment of Naivasha Sub-County is unique and hence SMEs in that county may have a variety of reasons for not complying with tax.

1.3 Research Objectives

The study main objective was to determine and establish the factors that affect tax compliance among SMEs in Kenya with reference to Naivasha Sub-County in Naivasha Sub-County.

Specific Objectives

- (i) To establish the effects of taxpayer knowledge on tax compliance among SMEs in Naivasha Sub-County.
- (ii) To determine the effects of tax rate on tax compliance among SMEs in Naivasha Sub-County.
- (iii) To examine the effects of filing procedure on tax compliance among SMEs in Naivasha Sub-County.
- (iv) To establish the effects of tax accountability on tax compliance among SMEs in Naivasha Sub-County.

1.4 Research Questions

Guiding questions for the research were stated as follows:

- (i) To what extent does tax knowledge affect tax compliance amongst SMEs in Naivasha Sub-County?
- (ii) To what extent does tax rate affect tax compliance amongst SMEs in Kenya Naivasha Sub-County?
- (iii) To what degree does filing procedure affect tax compliance amongst SMEs in Naivasha Sub-County?
- (iv) To what extent does tax accountability affect tax compliance amongst SMEs in Naivasha Sub-County?

1.5 Significance of the Research Study

Tax compliance in Kenya is a matter with great national intrigue. Tax compliance gives high income to legislature to back its ventures whereas contrary outcomes in spending shortages in administration. Examination tries to grow learning and literature on factors that determine tax compliance. In the event that confirmed, the discoveries of this investigation will go far in finding enduring answer for non-compliance behaviour in Kenya.

Revenue authorities such as Kenya Revenue Authority will gain superior comprehension of the issues or factors to look out for on revenue collection especially on instituting better reforms regarding the SMES for better revenue performance. This study will also help tax practitioners and policy makers. Firms and individuals adopting the ever changing tax systems and laws will gain an insight on the factors and relationship in the context of tax compliance thus helping forge a good relationship between the government and tax payers in the case of Small micro enterprises.

1.6 Scope of the Research Study

The study main focus was on dynamics affecting tax compliance among SMEs in Naivasha Sub-County, a survey of Naivasha town (CBD). The specific objectives were tax knowledge, tax rates, filling procedures and tax accountability. The study focused on the SMEs within the factors affecting tax compliance among SMEs in Naivasha Sub-County, case study of Naivasha town of Naivasha Sub-County because the operating environment of SMEs in Nakuru differ from other areas of study and the distinctiveness in environment might have influenced the results. The geographical area under the study provided adequate population and sample for the study and therefore gave reliable results and findings. The questionnaires for this study were administered to entrepreneurs who are currently operating SMEs in Naivasha Sub-County. The study was conducted between May 2018 and August 2018.

1.7 Chapter Summary

The section analyzed the background information of study variables with the aim of determining and establishing factors that affect and determine tax compliance among SMEs in Naivasha Sub-County. The chapter has put into light the required information that determines the study

literature review with a view of choosing the best data collection methodology that assisted the study to achieve its main objective. The chapter additionally highlights sections that are contained in chapter one that include study statement problem, research questions, objectives, significance of the study as well as study limitations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section of the research study has discussed and elaborated the theories that are related to study variables and review of literature that aims at exposing existing gaps. Literature reviews are important in establishing knowledge gaps that are related to tax compliance and related studies. The section also covers the study variables that are discussed into details, theories, theoretical framework, research gaps and operationalization of study variables.

2.1 Theoretical Literature Review

Hypothetical literature guides examination in distinguishing proof of significance of factors measured and essentialness of their connections in investigation. Subsequently, the study adopted hypothesis of the model by Allingham and Sandmo, resource based theory, pecking order theory, theory of reasoned action and Institutional Anomie Theory that were all adopted as a part of this investigation.

2.1.1 Allingham and Sandom Model

This model was theorized by Backer in 1968 and was later developed in 1972 by Allingham and Sandom and the model of tax compliance come into lame light. This model indicates that tax payer is always assumed to have an income and must decide on the part of the income to submit to the tax agency (Alm, Jackson & McKee, 1992). Declared income or revenue is taxed at a given rate by government agencies while undeclared tax is not subjected to any tax but the taxpayer will be exposed to a probability that being detected at given point which will be impose the taxpayer to a given fine. There are two strategies that the taxpayer can choose that is true declaration of his revenue or income or he can decide to declare less that the actual income he earns. But regardless of the choice will all depend on whether the tax authorities will one day investigate the tax payer. If the investigation is conducted and the taxpayer is found to be culpable he will be heavily fined by the tax authorities (Allingahm & Sandom, 1972).

According to this model the declared income depends upon income or revenue, audit rate and tax rate. According to Alm, Jackson and McKee (1992) other factors that affect and determine tax compliance decision or evasion is what the government takes from the tax payer, the individual perception of benefits of taxes.

2.1.2 Pecking Order Theory

This theory was originally developed by Donaldson and in 1984 the theory was modified by Myers and Majluf modified the theory which made it popular. Pecking order theory indicates that managers have more information on organization or business performance. Some businesses have higher level of asymmetric information such are organization with complex production and have less accounting transparency. The theory states that business prefer to be financed with internal funds while small firms that lack resources will have to rely on debt financing. In simple terms is that the theory suggest that organization will decrease or increase their debt ratio if they have a positive cash flow (Vanacke & Manigart, 2010). Business enterprises are concerned not only by current but also future financial cost. When the business climb up the pecking order they are faced with two increasing cost. When the business has higher probability of incurring financial distress cost and has a higher chance of surpassing future financial obligations (Quan, 2002).

According to pecking order theory business enterprise aim should be driven entirely towards debt financing as a result of tax deduction that is affiliated to interest payments that has accrued due to non-remittance of taxes. SMEs are affected by the use of debt that has increased due the fact that more debts increase after tax earnings and according to Mackie- Masion (2006) the choice between equity and debt have marginal changes on taxes that has a effect on overall business financial decision. According to Booth (2005) the use of tax rate that is average shows that the impact of tax loss determines what is carried forward and use of corporation as an avenue for income cash flows that affects the growth of SMEs that is determined by tax rate.

2.1.3 Institutional Anomie Theory

This theory emerged in the mid-1990s and it was first used in the book authored by Messner and Rosenfed in 1994. According to Messner and Rosenfed (1994) institutional arrangement where the economy is allowed to dominate without proper guidelines the society will be particularly criminology. The theory also stipulates that humans make decision based on social values which

separately may contradict. When an individual holds beliefs in an imbalanced set of social values the decision made squarely produces deviant behaviour (Itashiki, 2011). Institutional Anomie Theory highlights four theoretically derived sets of national cultural dimensions likely to promote or suppress tax evasion. They include individualism, achievement orientation, assertiveness and humane orientation.

Individualistic cultural values set the stage for behaviors that emphasize the pursuit of firm self-interest, largely neglecting concern for ethical consequences. According to IAT, individualistic cultural values encourage firm's decision makers to choose goal achievement beyond concerns for the ethical or legal means to achieve goals (Bame-Aldred, Cullen, Martin & Parboteeah, 2011). Thus, in such societies, firms more willingly deviate from accepted norms and evade taxes. On the contrary, collectivist cultures favor allegiance to the greater collective rooted in the notion that societal members are interdependent (Triandis, 1995) and, as such, should deter individual gains at the expense of the collective. This suggests that individualistic cultural values should inflate temptations for firms to evade taxes. Deceiving the tax system and the dangers of being punished once detected of the cheating, and for this reason the individual will honor the tax compliance requirements for fear of being penalized. Needless to say, compliance amongst individual payment of tax has sustainably remained high over the years. Analytically, there is no support that enforcement by the relevant authorities could be responsible for making individuals comply. The ultimate idea with tax compliance is why less tax is paid than expected, not why tax payers evade paying taxes due.

2.1.4 Resource Based Theory

This theory throws light into how organizations in the same sector perform better than others, the theory lays emphasis on the internal resources of the organization in developing its strategy to achieve a sustainable competitive advantage in the market. According to the theory not all resources of the organization are important to enable it generate competitive advantage for an organization to achieve the advantage is by generating average profits the resources must be inimitable, valuable, non-substitutable and non-transferable (Kraaijenbrink, Spende, & Groen, 2010). This shows that different organization performances are attributed to distinct resources and capabilities. According to Fahy (2009) elements of Resource based theory are strategic choices by management, the characteristics and kind of advantage generating resources, superior

performance and competitive advantage. Business enterprises combine different sets of resources in order to achieve competitive advantage.

According to Shook (2009) each organization poses different capabilities and resources and the way organization maintains, acquires, bundles, develop and applies the resources will definitely lead to superior performance and having a competitive advantage within a given period of time. Resources of an organization constitute the tangible assets, external assets and intangible assets (Hunt& Derozier, 2004). This theory indicates that organization resources are the strategic that affects performance; it shows the relationship between performance of organization and resources at their disposal.

2.1.5 Theory of Reasoned Action

This theory was developed by Martin Fishbein and Icek Ajzen in 1980. The reason way Fishbein and Ajzen introduced this theory was to enhance Anderson's theory of Information integration. The aspect of enhancement is derived from behavioral intention and the duration of pre-existing human attitudes. Human intentions can predict his response which means that an individual behaviour will be affected or be influenced not only by his perceptions but also be his expectations. According to theory of Reasoned Action human behaviour and intentions are determined by three things that is personal opinion on whether a certain behavior is bad or good; favorable or otherwise; negative or positive. The individual attitude must be specific since the specificity allows the prediction in the resulting behaviour. Second the prevailing subjective social pressure from other people expectations that is individual normative beliefs or need to comply with what others expect (Ajzen & Fishbein, 2004). Behavioral intention is seen as the precursor that immediately leads to the actual behaviour that means that individual will react depending on the behavioral intention formed and developed. According to Theory of Reasoned Action individual actions are influenced by perceptions and attitudes and the theory recognizes that reality that attitudes indicate specific behaviour and perceived social norms may contradict it (Ogjen, 2003).

2.2 Empirical Literature Review

This segment surveys past investigations proper to study objectives. Empirical literature was assessed per objective. For this situation, the examination would break down variables

influencing tax compliance among SMEs in Naivasha Sub-County, a survey of Naivasha town Central Business District (CBD).

2.2.1 Knowledge and Tax Compliance

Okoye, Akenbor and Obara (2012) led an examination on Tax Information, Administration and Tax Payers' Compliance knowledge of Ekiti State Manufacturing Firms. This examination analyzed the effect of tax data, organization and learning on taxpayer's compliance of Ekiti State manufacturing Ekiti State Firms in Nigeria utilizing survey research design. The outcomes demonstrated that tax data and learning had positive critical effects on tax compliance while tax organization insignificantly affected tax compliance with beta coefficients which are unstandardized of 0.251 ($t = 2.038$, $p < 0.05$), 0.322 ($t = 3.682$, $p < 0.05$) and 0.077 ($t = 1.021$, $p > 0.05$) appropriately. Investigation showed tax data, tax learning tends to advance tax compliance than tax organization. The investigation prescribed that legislature ought to through its organizations instruct the potential taxpayers on taxation laws and controls by coordinate free symposia and courses.

Adesina and Obazee (2016) completed an investigation on Taxation information, Penalties and assessment compliance in Nigerian small and medium scale endeavors. Examination was led utilizing survey design and information were gathered through survey and broke down utilizing least square technique. Outcomes uncovered that tax learning had positively huge effect on tax compliance while taxation penalties had inconsequential positively effect on assess compliance. Prescription that legislature ought to energize taxpayers information about assessment laws and standards in this way making mindfulness for the common advantages of the administration and the taxpayers.

Machogu and Amayi (2013) directed examination on impact of taxpayer instruction on intentional tax compliance, amongst SMEs in Mwanza city, Tanzania. Examination looked to build up impact of taxpayer instruction on intentional tax compliance, amongst SMEs in City of Mwanza -Tanzania. In particular, investigation sets up level of taxpayers training among SMEs, the level of deliberate tax compliance amongst SMEs and impact of taxpayer instruction on level of intentional tax compliance, amongst business visionaries in Mwanza City. A cross-sectional descriptive research configuration was utilized. Both essential and auxiliary information were gathered utilizing poll. 85percent of respondents, confessed to have increased comprehension on

essential tax laws and methodology, whereas 15 percent demonstrated no change in understanding fundamental tax laws. 78.7 percent of respondents concurred that through taxpayer training, they had possessed capacity to comprehend and wind up noticeably mindful of their taxpayer rights and commitments. 21.3 percent of respondents expressed taxpayer instruction, had not possessed capacity to help in comprehending and getting to be noticeably mindful of their tax rights and commitments. 83 percent of respondents concurred taxpayer instruction helped them see unmistakably system of paying taxes, while 17 percent guaranteed that in spite of tax training gotten, they didn't see plainly the tax payment strategy.

Reactions from staff showed 80percent of profits were held up convenient, whereas remainder 20percent were not stopped inside lawful periods and would draw in penalties, fines for filing late. Returns lodged 67 percent proclaimed precise tax risk, while rest was erroneous. Extra taxes were surveyed through reviewing. 78 percent of the individuals required to pay taxes, really paid inside stipulated time period as indicated by the law, whereas remainder 22 percent were late in tax payment, requiring utilization of implementation techniques. It is consequently suggested tax collection ought to be instructed at all training levels that is primary schools with accentuation on advancing deliberate tax compliance.

2.2.2 Tax Rates and Tax Compliance

It is for most part trusted that a high tax rate is the primary driver of tax evasion. Motivating forces to sidestep tax rely upon the minimal rates of tax collection on the grounds that these oversee the increases from evasion as a total of the total sidestepped. One noteworthy evasion of tax is high individual income rate of taxation which tend to direct taxpayers to dodge tax. Excessively numerous and confounded standards and directions forced by the administration tend to prompt tax evasion. Organizations discover it by and large troublesome frequently not beneficial to work together lawfully (KRA, 2011).

Kenya Revenue Authority has moved to widen its VAT tax base in an ambitious plan seeking to raise the number of active Kenyan tax payers to 4 million by the year 2017 against the present 1.6 million. Under this new plan, the KRA seeks to rope in additional players in the small and medium sized enterprises (SMEs) category who have often eluded the taxman's scrutiny. It is known that SMEs do not register voluntarily, while those which do often fail to keep adequate records, file tax returns and settle their tax liabilities promptly hampering the taxman's efforts to

mobilize revenue in the bracket. A number of strategies leveraging on technology have been put in place to enhance new taxpayer registration, filling of returns and tax compliance. These include online tax registration and filling of returns, use of electronic tax registers at the point of sales as well as leveraging on information technology to share taxpayer information with other public institutions. However, the taxman is yet to achieve its targets on taxing of SMEs (IEA, 2012).

As indicated by Osambo (2009) the elevated measure of tax collection of Small micro enterprises in Africa specifically Kenya, warrants thought on animated research domains went for watching out for the general effects of duty accumulation on SMEs by pondering tax appraisal direct in five particular countries (USA, Gambia, Nigeria, South Africa and Kenya), Osambo (2009) contemplated that extended tax assessment rate is a vital threat. The results show that expansion in tax rates prompts higher development, appropriation and offering costs which prompt higher costs and accordingly customers change their purchasing conduct. Individuals respond to the higher costs by purchasing less of the item. At the point when deals fall, manufacturers cut back on generation and a few specialists may lose their employments.

The profitable assets i.e. land, capital, work and business are designated to different enterprises or go unused. For example, when the administration increment taxes things, for example, beer and cigarettes to realize income and discouraging their utilization individuals tend to purchase neighborhood brews. At whatever point costs increment because of increment in rates of tax; merchandise costs and service increment and drop in utilization rate and an abatement in sales volumes prompting hindered development of small micro enterprises. Tax installment is amongst surges of money from business lessening buying influence of an undertaking. This is because of the way that lot of money gathered is utilized in tax payment instead of to extend business. The investigation demonstrated that the power of purchasing of a venture drops instantly an organization pays taxes (Mungaya, 2012).

2.2.3 Filing Procedures and Tax Compliance

In Kenya, filling tax returns in the past has been done manually where taxpayers were required to fill in manual forms and submit the same forms to KRA .However in 2014, the government launched the online filing system referred to as the iTax that aimed at encouraging the use of internet to file tax returns so as to boost tax compliance and revenue collection. The iTax system

allows taxpayers to authenticate more information. Tax compliance methodology incorporates every single formal system and related exercises that taxpayers need to see to conform to tax commitments. Tax commitments are ordered into four classes: Registration in the framework, timely documenting or lodging of the required tax collection data, detailing complete and exact data (counting great record keeping), and Payment of tax on time according to the necessity of the law. Financial speculations on tax assessment holds that, taxpayers are flippant utility amplify and affected by monetary thought processes, for example, benefit expansion, in this manner, they examine elective compliance ways for example regardless of whether to dodge tax. Also there is wide discernment by taxpayer that taxation is a load particularly little and medium ventures (Vihanto, 2000)

According to Isa (2012) Tax unpredictability is another detectable significance of taxpayers compliance factor impacting compliance conduct and it might be beginning of avoiding tax. Moreover, Loo, McKerchar and Hansford (2010) focused that tax laws are excessively confounded for taxpayer', making it impossible to keep side by side thinking about the regular change in tax law. Authors saw tax many-sided quality as difficulty in tax law and successive tax law changes. These matters may conceivably be reason whereby taxpaying corporations set out services of outside tax experts when encountering challenges in issue taxation.

Simplification has likewise been presented in filling and installment process. More tax organizations have been moving towards electronic documenting and installment frameworks, regularly making it compulsory amongst large taxpayers. Electronic frameworks can lessen measure of time taken for organizations to round out various structures with comparative data, and also reduce time taken holding up in line to returns filing and make installment at tax office. Additionally, there has been pattern towards diminishing quantity of structures taxpayers needs to forward and combining the number of filings every year. In a few nations, the enrollment procedure itself has been patched up to enable organizations to enlist with numerous administration offices in a single step, what has been normally called 'one-stop-shop' enrollment. For instance, Costa Rica effectively diminished prerequisites for beginning and operating an independent venture by presenting a multi-office organize encouraging one-stop recording of all fundamental for business formalization documents. Utilization of a typical system likewise supports data trade between the establishments included (World Bank, 2013).

2.2.4 Accountability and Tax Compliance

Adebayo (2017) conducted a study on The Effect of Accountability and Transparency on Tax Returns in Nigeria. The objective of this paper is to ascertain how transparency and accountability can propel tax returns in Nigeria. The methodology adopted was time series data and our analysis was predicated on Views where the author ran a regression model that established the good fitness of the model. The model used is an auto regressive model. Stewardship theory was used for this study. Tax accountability and transparency with greater emphasis on the various kinds of taxes such as Personal Income Tax, Companies Income Tax, Petroleum profit Tax, Duties and value Added Tax is perceived to have a direct correlation with the Gross Domestic Product (GDP). It is believed that if potent mechanism is put in place more tax returns might be generated and where the government reciprocates this by way of qualitative governance appreciable compliance might ensue at the end of the day. The recommendation is a signal to government on the need to judiciously utilize tax proceeds to the betterment of the citizens notwithstanding the fact that even where they choose otherwise the payment of taxes remains sacred. The developed economy like United Kingdom that records a huge turnout in tax commitment tends to be more transparent and accountable with this tax revenue by virtue of the gargantuan projects that exist. It is therefore incumbent on Nigerian government to mimic this idea so that the citizens would be willing and enthusiastic paying the tax.

According to Young et al., (2013) Taxpayers' expectations are that the revenue generated from taxes should be spent and accounted for meaningfully by the state. Where this is lacking it can cause a slack in tax payers' commitment to pay their taxes. This is corroborated by Thorndike (2009) as he posited that citizens must comply with their obligations as part of their bargains, while governments are expected to secure the safety and security of individuals including the right to property. Braithwaite (2001) contended that the taxpayers' evaluation of local tax bureau's performance is proposed to affect tax compliance. Thus, the extent to which the tax office is delivering on its charter is suggested to be a factor affecting compliance. Young et al. (2013) concurred to this as they put it that as tax authority is fulfilling its promise their willingness to follow tax requirement may be higher.

Kiow, Salleh and Kassim (2017) conducted a study on the Determinants of Individual Taxpayers' Tax Compliance Behaviour in Peninsular Malaysia. The findings from this review suggested that

tax compliance behaviour of individual taxpayers is influenced by ethical perception of individual taxpayers and their ethical perception is affected by public governance and transparency in government operations. Ethical perception plays an important role for individual taxpayers to report their income correctly. Ethical perception varies from an individual to another, which influenced by changes in their surroundings and their experiences when interact with government. Perceptions of how taxpayers' money is being utilized, benefits they derived from government or others evade to pay tax are considered as possible factors influencing their compliance behavior. Taxpayers will be more compliance if government use tax monies wisely or when taxpayers get benefits for the taxes paid in terms of public goods and social amenities that they prefer. Transparent surroundings will enhance taxpayers' confidence in public bodies. Taxpayers are concerned on transparency in public procurement as lack of transparency may cause corruption and reduces public sector efficiency. In contrast, scholars argued that greater degree of transparency could lead to less trust as it will be easier for taxpayers to audit government and they might blame government for small mistakes.

According to Adeyeye and Otusanya (2015) examined the impact of taxpayers' perception of government's accountability, transparency and reduction in fiscal corruption on voluntary tax compliance. The study obtained data through questionnaire from a sample size of 1,700 selected randomly out of the population of 11,900 tradesmen and artisans belonging to 17 trade associations in Lagos State, Nigeria. Findings of the study indicate that each of the individual independent variables has significant positive relationship with the dependent variable. The study also suggests that the combined effect of government's accountability, transparency and reduction in fiscal corruption appears to have greater impact on voluntary tax compliance. The paper argues that for most taxable adults to be tax compliant in Nigeria, government must be perceived and seen to be accountable to the citizens, be transparent in its style of governance and be perceived and seen to take necessary steps in reducing the level of corruption in Nigeria.

2.3 Research Gaps

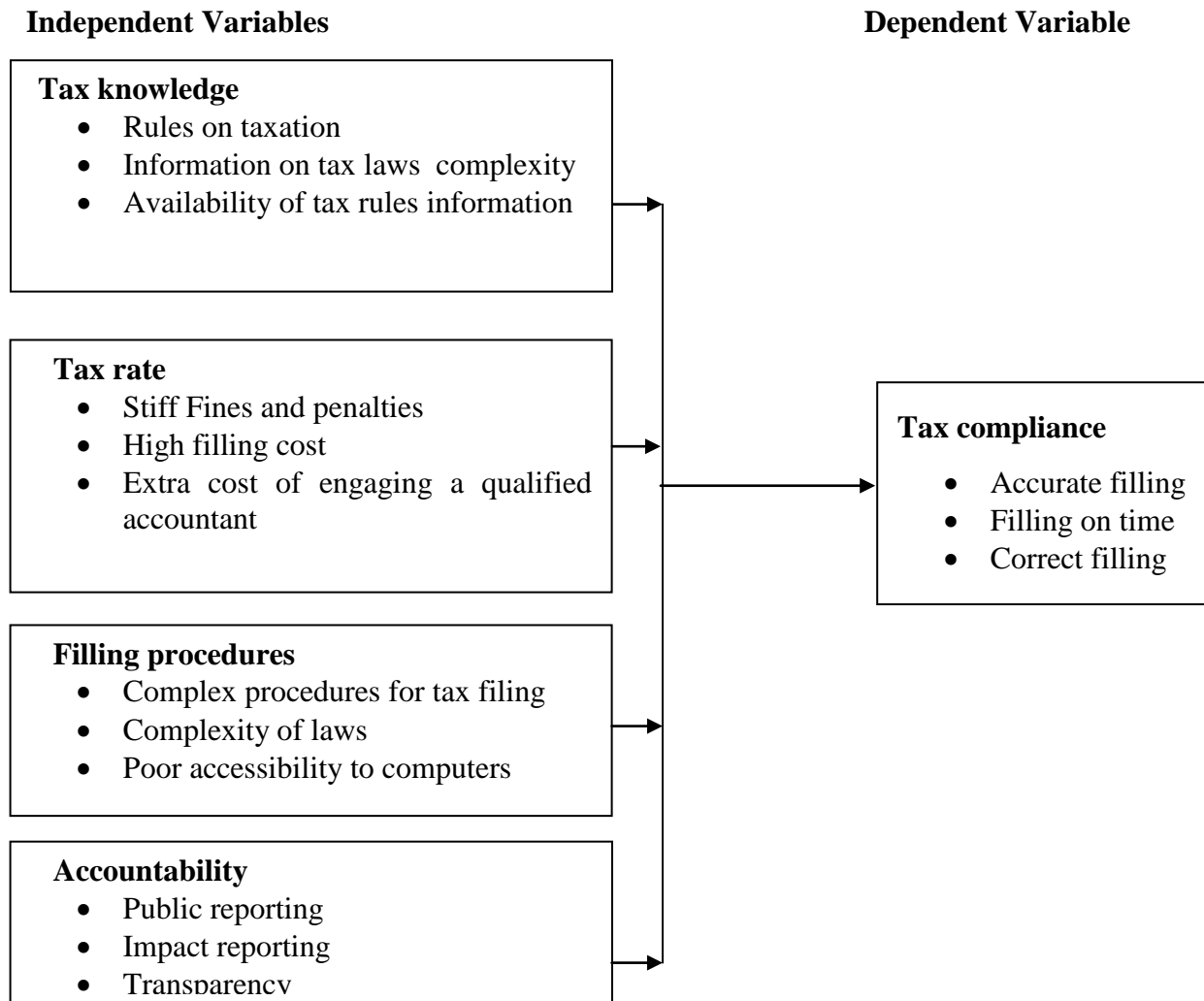
Most Previous investigations are concerned about featuring of the systems detailed and actualized in financial institutions for upper hand. These incorporate Lumumba, Wanjohi and Magutu (2010) examined how taxpayers' attitude influences compliance conduct amongst SMEs in Kerugoya town; Magiya (2016) conducted a study on tax compliance determinants amongst

Nairobi east tax district small and medium size firms; Thiga and Muturi (2016) conducted a study on variables Influencing Compliance with Taxation Laws amongst Kenyan Small and Medium Size firms. Adesina and Obazee (2016) completed an investigation on Taxation information, Penalties and assessment compliance in Nigerian small and medium scale endeavors and noted that Outcomes uncovered that tax learning had positively huge effect on tax compliance while taxation penalties had inconsequential positively effect on assess compliance. Adeyeye and Otusanya (2018) examined the impact of taxpayers' perception of government's accountability, transparency and reduction in fiscal corruption on voluntary tax compliance and found out that the combined effect of government's accountability, transparency and reduction in fiscal corruption appears to have greater impact on voluntary tax compliance. Okoye, Akenbor and Obara (2012) led an examination on Tax Information, Administration and Tax Payers' Compliance knowledge of Ekiti State Manufacturing Firms and concluded that tax data and learning had positive critical effects on tax compliance. However, of all these studies, there has not been one that focused on establishing the four factors highlighted in this study that affecting tax compliance among SMEs in Naivasha Sub-County.

2.4 Conceptual Framework

Research examination was aimed at analyzing factors affecting tax compliance among SMEs in Naivasha Sub-County. The independent variables were tax knowledge, tax rate, Complex procedures and accountability. The dependent variable was the tax compliance level.

Figure 2.1: Conceptual Model



(Author, 2018)

2.5 Operationalization of Variables

Table 2.2: Operationalization of variables

Variables	Predictors	Analysis type	Analysis tools
Taxpayers knowledge	<ul style="list-style-type: none"> • Rules on taxation • Information on tax laws complexity • Availability of tax rules information 	Inferential and statistics Descriptive	Percentages and Frequencies, and Multiple linear regression
Tax rate	<ul style="list-style-type: none"> • Stiff Fines and penalties • High filling cost • Extra cost of engaging a qualified accountant 	Inferential and statistics Descriptive	Percentages and Frequencies, and Multiple linear regression
Procedures	<ul style="list-style-type: none"> • Complex procedures for tax filing • Complexity of laws • Poor accessibility to computers 	inferential and statistics Descriptive	Percentages and Frequencies, and Multiple linear regression
Accountability	<ul style="list-style-type: none"> • Public reporting • Impact reporting • Transparency 	inferential and statistics Descriptive	Percentages and Frequencies, and Multiple linear regression
Tax compliance	<ul style="list-style-type: none"> • Accurate filling • Filling on time • Filling correct returns 	inferential and statistics Descriptive	Percentages and Frequencies, and Multiple linear regression

2.7 Chapter Summary

This chapter has discussed the theories that are related to the study variables and has Section discusses theoretical empirical literature, highlights research gaps that needs to be filled and then exhibits conceptual framework designed. Independent factors were of tax knowledge, tax rate, filling procedures and tax accountability. The dependent variable was tax compliance level. The study has selected the past activities that fall within the objectives of the study; that gave a clear account of all past theoretical undertakings that were related to the study. The literature sets out to explore and analyze study variables and it was aimed at providing a theoretical and conceptual basing from which a methodology for research was developed, an analytical framework chosen, relevant data collected and consequent analyses carried out towards drawing conclusions on the study.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

Research methodology offers, describes and gives an explanation into what type of research being carried out is all about. This Chapter provides the link between the research model and empirical results. It answers the what, the how and the why questions relating to the approaches and methodological choices that were made relating to the study. This chapter also elaborates on data collections and data analysis and also data presentation. It gives and defines what are research design, target population, sample and sampling design methods to be used. The chapter discussed methodological procedures that were used for the study which consisted of: the research target population, research design, sample size, pilot study, techniques for data collection, analyzing and reporting the results, and ethical considerations.

3.1 Research Design

According to Kothari (2014) a research design can be regarded as a composition of rules for data collection and analysis of the same in a way that combines relevance with the aim of the research. The study employed descriptive survey research design that took the form of survey. This design is the most appropriate since it ensures that the data obtained gives appropriate answers to the research questions. Descriptive study is used to describe characteristics of a population or phenomenon under study. The data collection was done by asking the target representative population structured and pre – determined questions. The descriptive research methods can only describe a set of observations or the data collected. This study therefore was inclined to a positivist research approach. The phenomenological paradigm may be viewed as qualitative. Phenomenology suggests, that knowledge is subjective, based in the experiences, personal knowledge and interpretation of the individual. The emphasis placed on the world of experienced by an individual, not the reality as something separated from individual (Saunders, Lewis, & Thornhill, 2007). The phenomenological approach doesn't start from the established theory and then proceed to collect information that will either reject or vindicate the applied theory. This research study was guided by the positivist paradigm because it is anchored on

theory from which hypotheses are derived, followed deductive reasoning and employed quantitative methods to ensure precision, logic and evidence testing.

Positivism underscores that the eyewitness is independent from what is being observed, the choice of the research is determined by objectives rather than beliefs and the concepts that are operationalized in a manner that they can be measured from a sample and generalization of the entire population. The research study was grounded on a research paradigm that is positive. The requirement is that the facts must be established for casual relationships that may be observed. Empirical studies based on hypothetical and deductive research approach in which the study begins with a hypothesis, are most appropriate for this type of investigations (Saunders, Lewis, & Thornhill, 2007).

3.2 Target Population

According to Mugenda & Mugenda (2013) and Ngechu (2004), target population entails an entire group of persons or things which have similar features which are preferred by the investigator. Target population consist of a group of entities or elements which might be huge than or distinct from sampled group from which the researcher will draw conclusions about the interested population. The target population of this study comprised of Small and medium Enterprises in Naivasha Sub-County. Data from the Naivasha Sub-County council (2017) shows that there are 1,425 SMEs operating within the township, concentrating within the manufacturing, trade and services sectors. These formed the target population for this study.

Table 3.1: Table showing target population

Sector	Population	Percentage%
Manufacturing	186	13
Trade	854	60
Services	384	27
Total	1,425	100%

Source: Naivasha Sub-County Council, 2017

3.3 Sample and Sampling Technique

Mugenda (2003) defines a sample as a part of the total population. Orodho and Kombo (2002) view a sample as a finite and representative number of individuals or objects in a population to be studied. Further, Kothari (2004) describes a sample as a collection of units chosen from the universe to represent it. Zikmund (2010) also refer to a sampling frame as a source list containing all names of the universe. Specifying the sample frame is crucial as it itemizes all items in the population from which a sample is obtained for analysis so as to test the research hypotheses. The study adopted a stratified random sampling technique to select 10% of the target population as the sample size.

According to Kothari (2004), a sample size of between 10% and 30% is a good representation of the target population, for populations below 10000. In stratified random sampling, the population is categorized into various strata. Random sampling is then applied in the selection of the respondents from each of the strata. In random sampling all the respondents have equal chances of being selected. The advantage of this method is that it gives a sample size that is representative of the whole population. The study adopted a stratified random sampling technique to select 10% of the target population as the sample size. Therefore, the sample size for this study was the selection of 142 respondents.

Table 3.2: Table showing sample size

Strata	Target Population	Sample size 10
Manufacturing	186	18
Trade	854	85
Services	384	39
Total	1,425	142

3.4 Data Collection Instruments

Data gathering includes a procedure that is exact and involves deliberate social event of data applicable to the exploration sub-issues. The researcher utilized questionnaire as the essential instrument for information gathering. Questionnaire was formatted to contain sections reflecting the study variables. Closed questions were employed in each section for collection of respondents' views, opinion and attitude. The survey was self-run through drop and picks technique to enterprises officers, via research assistants. Use of self-administered questionnaire was recommended for eliciting self-report on respondents' opinion, attitude and value (Mugenda & Mugenda, 2013). The questionnaires are deemed reasonable because of the high literacy levels among the category of employees selected to participate in the study.

Semi structured questions were used to obtain general information. Questions one to five required the respondents profile and institution profile. The rest of questions were designed to address research questions and objectives based on study variables. The use of questionnaire was preferred in this study because the respondents were literate and were able to understand the questions and respond appropriately. Secondly a questionnaire could be administered simultaneously to a large number of people at their convenience. The survey questionnaire were administered to the respondents through the drop and pick method. Cooper and Schindler (2008) posit that a self-administered survey method is especially appropriate when it is important for the respondent to have adequate time to carefully consider their responses as was the case in this research. Other advantages for the self-administered questionnaire were cost and the anonymity provided to the respondent.

The decisions to use these methods were aimed at improving the quality of data collected. Due to the large numbers of respondents, two research assistants were engaged and briefed on how to approach the small and medium enterprises, how to present themselves and how to distribute the questionnaires to the respondents in the target population. The research assistants were trained and sensitized them on the content of the questionnaire, data collection method and procedures, and on issues of ethics. As a control measure and ensuring that the research assistants actually visited the SMEs and engaged respondents, contact persons was requested to confirm if the research assistants indeed visited and engaged the respondents. The study used secondary data

for literature review; these materials used included books, journals, reports, and magazine. The researcher collected primary data for this study report and used secondary data for literature review.

3.5 Pilot Study

Study piloting was carried out before primary research to build up reliability and validity of instrument of information gathering (Mugenda & Mugenda, 2013). It's completed before main examination to try out instrument amongst experts and experts in knowledge branch. Changes and adjustments were conducted to the poll after study piloting is carried in readiness for primary exercise. The pilot study aims at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2008). The study adopted content validity to measure the degree to which data was collected with the aid of questionnaires. Before using the questionnaires for generating data for the study, a pilot study was conducted in selected respondents in Naivasha Sub-County. The purpose of pre-testing the research instrument was to verify whether the questionnaire were clear to the respondents, establish whether the feedback form would effectively address the data needed for the study, assess and identify any problems respondents would encounter in completing the questionnaire that may not have been foreseen when constructing the questionnaire.

3.5.1 Reliability of the Research Instrument

Reliability is the degree to which a question consistently measures (Sekaran & Bougie, 2013). Cronbach's Alpha is a popular method for estimating the reliability of an instrument but it is highly inappropriate for the survey questionnaires. The study used co-efficient of 0.6 or above for all constructs that are considered adequate for the study. The construct multiple of reliability is Cronbach alpha; according to Kombo and Tromp (2009) the standard acceptable reliability coefficient is 0.6 the study adopted Cronbach Alpha was used to test research instruments reliability. According to Mugenda and Mugenda (2003) a reliability test of research instruments is one that consistently produces the expected results. According to Kothari (2004), a questionnaire has the same expectation, that is, it reliably does what it is designed to do every time is used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. They say that because of economy in time and labour, the procedure for

extracting an estimate of reliability should be obtained from the administration of a single test. The researcher can use the questionnaire and administer the questionnaire to 14 respondents from the target population randomly. The researcher waited for two weeks and then repeated the questionnaire to the same respondents.

3.5.2 Validity Testing

Validity alludes to exactness and importance of derivations, which depend on exploration discoveries. According to Mugenda and Mugenda (2013), the standard method in surveying substance validity of measure utilization of an expert or master in definitive field which helps in finding question content, adjustment in the wording and the sequencing issues before the real investigation and additionally investigating methods for enhancing general nature of study. For this examination, the researcher will look for suppositions of specialists in study fielding particular speakers in the division of venture administration to set up the validity of the exploration instrument. This encouraged the important amendment and change of the examination instrument in this manner improving validity. According to Mugenda and Mugenda (2013), validity is the accuracy and meaningfulness of inferences, based on the research results. The researcher used both content and facial observation to ascertain validity of the questionnaire. Validity is the correctness and capacity of interpretations founded on the study results. The researcher conducted the pilot study to validate the study questionnaire. Content validity draws an inference from test scores to a big area of items similar to those on the test. Cooper and Schindler (2008) explains that understanding and expertise covered by the test items that represent a larger area of same dynamic.

3.6 Data Collection Procedure

The researcher obtained permission from the university to collect data for the study and One research assistant was prepared on the topic to help with managing the polls to the 142 respondent's will's identity chose from the assembling, exchange and administrations areas inside Naivasha Sub-County utilizing the stratified inspecting strategy. The respondents were guided through the inquiries and outlined contrasting options to guarantee properly reaction. Drop and pick later strategy for information accumulation was connected to improve the reaction rate.

The study used questionnaires to collect data, both paper based and online questionnaires. A questionnaire is a research instrument consisting of a series of questions. The researcher used questionnaires which are more efficient and economical tool for descriptive and preventive research for the sample size that was chosen. This way was easier to identify the level by which the respondent will agree or disagree (Kothari, 2004). Secondary data was collected from documented sources such as library books, magazines and newspapers and internet literature. For the main purpose of this research, the study collected primary data but relied on the secondary data for the literature review.

According to Kombo and Tromp (2009), data collection is important in research because it allows for the dissemination of accurate information and development of meaningful programmes. The researcher informed the respondents that the instruments being administered was for research purposes only and the response from the respondents was kept confidential. The researcher obtained an introduction letter from the Management University of Africa in order to collect data from the field and then personally delivered the questionnaires to the respondents so that they can be filled in. The researcher then collected the questionnaires later or they were emailed back to the researcher.

3.7 Data Analysis and Presentation

According to Zikmund, Babin, Carr, and Griffin (2010) data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. This involves coding, editing, data entry, and monitoring the whole data processing procedure. To determine the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected. The data and information obtained through the questionnaire was first checked for completeness. Data gathered from correctly filled questionnaires was coded, tabulated and analyzed using SPSS by both descriptive statistics which include mean and standard deviation to capture the characteristics of the variables under study and inferential statistics which include Pearson correlation and regression coefficient which was used to analyze the relationship of the dependent and the independent variables. Data was presented using graphs and tables.

The analysis of variance (ANOVA) was checked to reveal the overall model significance. In particular, the calculated f statistic was compared with the tabulated f statistic. A critical p value of 0.05 was used to determine whether the overall model was significant or not. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable to estimate model of composite index of organizational performance measure α is a regression constant or intercept, β_1-4 were the regression coefficient. Y compliance represents the composite score of compliance and the independent variables. ε is the random error term that accounts for the viability of the enterprise compliance that cannot be explained by the linear effect of predictor variables. The multiple linear regression model was as laid.

$$Y = \beta_0 + \beta_1 X_k + \beta_2 X_t + \beta_3 X_p + \beta_4 X_a + e$$

Where:

Y = Tax compliance

($B_i = k, t, p, a$) = various coefficients for the independent variables

X_i for;

X_k = Knowledge

X_t = Tax rates

X_p = Procedures

X_a = Accountability

3.8 Ethical Consideration

This includes the ethical gauges that are taken by researcher in all examination angles amid exploration procedure. Amid research process, researcher may experience a few difficulties and mishaps from the suspicious respondents who may not willfully give the asked for data presumably due to absence of trust and secrecy. They may imagine that they are acting in opposition to the association's morals and approaches however analyst will promise them that the data is required with the end goal of research just and there are no hided expectations and plan. Researcher may likewise experience imperative of time amid the exploration procedure.

The research will be guided by the following ethics during the period of the study; Honesty; the research strived for honesty in all communications. Honestly report data, results, methods and procedures, and publication status. The study was objective in nature that it avoided biasness in its experimental study design, peer reviewed, expert testimony, data was analyzed without any bias and all aspects of research were put into consideration. The study observed integrity by keeping agreements and promises that study come along during the research period and the researcher strived for consistency during the entire process. The study avoided careless mistakes and negligence will be examining the study variables. The researcher critically and carefully examined literature review and kept a good record of all the activities that study was involved in such as correspondences with the sampled population, data collections date and venues as well as the design that was adopted for the study. The research explained the purpose of the study to the target audience and the reason why their provision of data would paramount to achieving the main objective of the study that was a requirement for completion of a study in masters in leadership and management at The Management University of Africa school of management and leadership.

The data that was collected from the field of study was treated with total confidentiality and respondents were asked not to indicate their names or those of the enterprises they operate. And as requirement to the study anonymity of the respondents was important during the entire period this was achieved through administration of questionnaires that were collected in unmarked and sealed envelopes that the research provided. The researcher showed openness during the entire period there was the respect of intellectual property rights as well as copy rights and all the communication were protected from third party access.

3.9 Chapter summary

The chapter discussed the methods and procedures that were employed in the research study, stated the preferred research design and further highlighted that descriptive research design was preferred because it enabled the researcher to draw recommendations about the interested population based on the findings. The chapter stated how the data was collected and the sample size to be included in the study population. The chapter further highlights that the researcher was conducted descriptive and inferential statistics to analyze data i.e. central tendency measures

(mean and standard deviation), correlation and regression coefficients was used to establish the factors affecting tax compliance among SMEs in Naivasha Sub-County. Finally, the chapter highlighted that the researcher used (SPSS) which is a Statistical Package for Social Sciences to generate Statistics. The findings were presented in form of charts, figures tables and graphs.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

The section of the study research focuses on the study finding, presentations and discussions, the part is section into respondent's demographic information, presentations according to study variables, limitations of the study as well chapter summary. Data that was gathered from the study survey has been analyzed using SSPS and descriptive statistics and presentations are illustrated in tables and figures.

4.1 Response Rate

The researcher distributed 142 questionnaires to the respondents and 120 questionnaires were returned duly filled up and were used for the analysis that recorded a response rate of 85% as tabulated in table 4.1 and figure 4.1 as provided by Mugenda and Mugenda (2003) and echoed by Kothari (2004) any response that is 50% is good and adequate to be administered in research study. According to Babbie (2004) a response rate above 70% is excellent. Therefore, the study achieved above the recommended threshold and the valid sample for the study was based on 120 (n=120).

Table 4.1: Table showing response rate

Variable	F (n)	Percentage
Returned	120	85
Not returned and incomplete	22	15
Total	142	100

As shown in table 4.1 the number of returned and completed questionnaires were one hundred and twenty that represents 85% of the valid questionnaires that were analyzed and assisted the study in making a conclusive report in relation to study variables.

Figure 4.1: Figure showing response rate

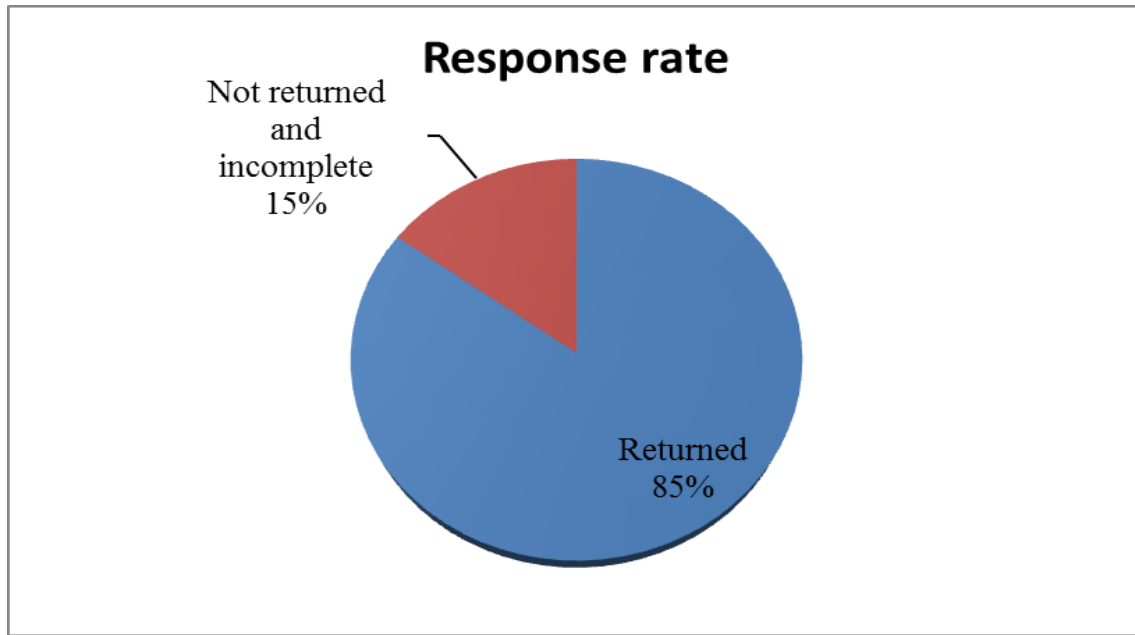


Figure 4.1 shows out of the 142 questionnaires that were distributed 85% were duly filled up and collected for data analysis while 15% were not returned and some of them were incomplete.

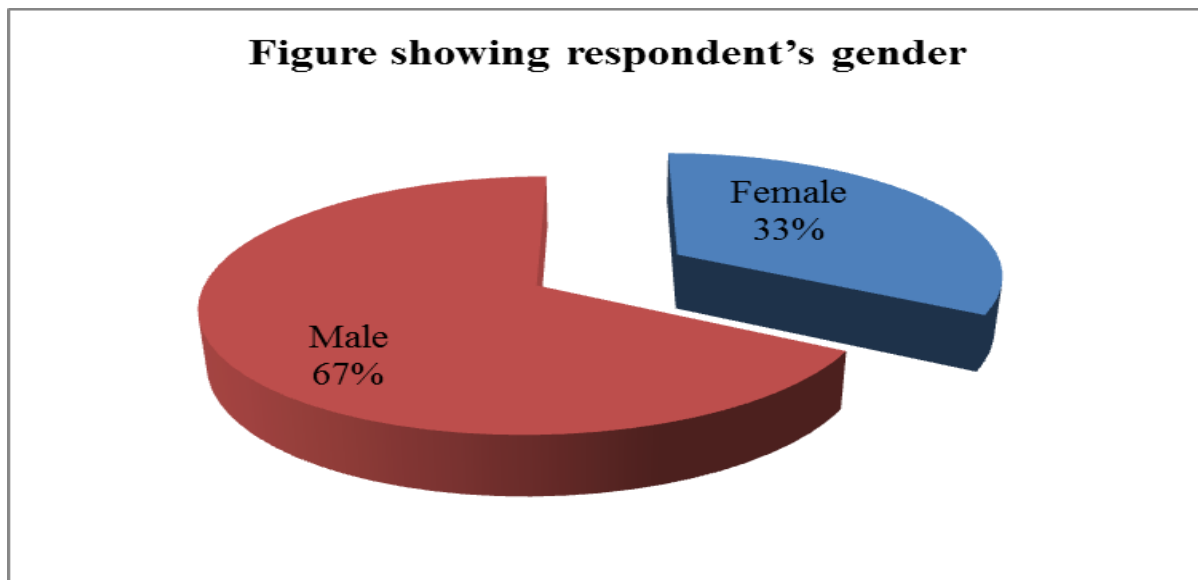
4.1.1 Respondents Demographic Information

Table 4.2: Table showing respondent's gender

Variable	F (n)	Percentage
Male	80	67
Female	40	33
Total	120	100

As shown in table 4.2 respondents were required to indicate their gender and the finding show that the majority were male at 67% while their female counterpart represented 33%.

Figure 4.2: Figure showing respondent's gender



As shown in figure 4.2 respondents were required to indicate their gender and the finding show that the majority were female at 67% while their female counterpart represented 33%. This shows that the majority of SMEs in Naivasha Sub-County are managed or owned by men.

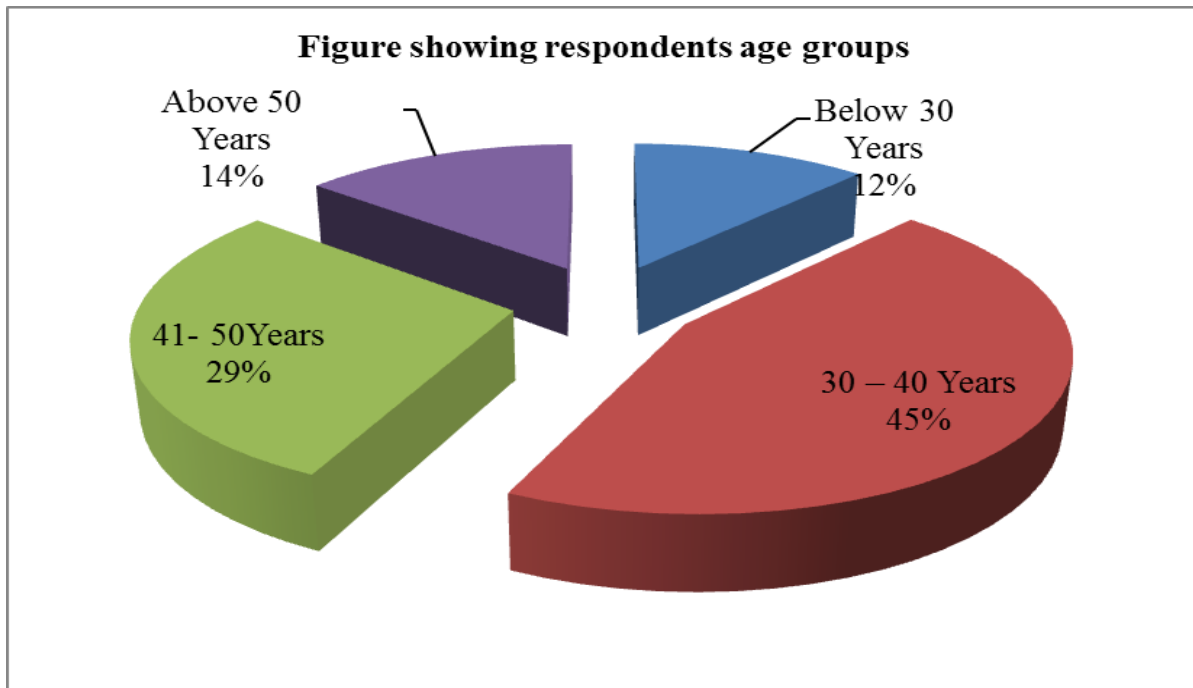
Table 4.3: Table showing respondents age groups

Variable	F (n)	Percentage
Below 30 Years	14	12%
30 – 40 Years	54	45%
41- 50Years	35	29%
Above 50 Years	17	14%
Total	120	100

As shown in table 4.3 respondents were asked to indicate which age group that best suits them and the responses were as following majority of the respondents were aged between 30 years and

40 years at 45%, 41 years to fifty years were 29% while above 50 years were at 14% and below 30 years were 12%.

Figure 4.3: Figure showing respondents age groups



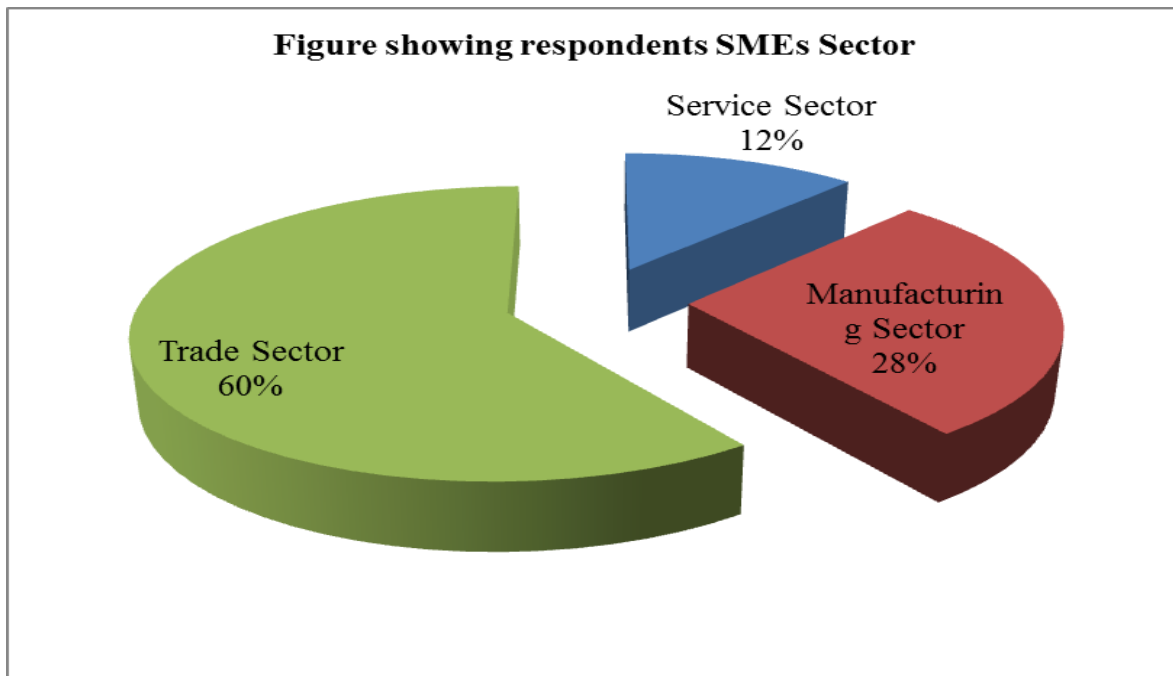
As illustrated in figure 4.3 respondents were asked to indicate which age group that best suits them and the responses were as following majority of the respondents were aged between 30 years and 40 years at 45%, 41 years to fifty years were 29% while above 50 years were at 14% and below 30 years were 12%. This implies that most of owners or managers of SMEs in Naivasha Sub-County were in their mid-years.

Table 4.4: Table showing respondents SMEs Sector

Variable	F (n)	Percentage
Service Sector	14	12%
Manufacturing Sector	34	28%
Trade Sector	72	60%
Total	120	100

As shown in table 4.4 respondents were asked to indicate which sector the SMEs the run or operate belongs and the majority of the respondents indicated the belong to the trade sector at 60% followed by manufacturing sector at 28% while the service sector were representing 12% of the respondents.

Figure 4.4: Figure showing respondents SMEs Sector



As shown in figure 4.4 respondents were asked to indicate which sector the SMEs the run or operate belongs and the majority of the respondents indicated the belong to the trade sector at

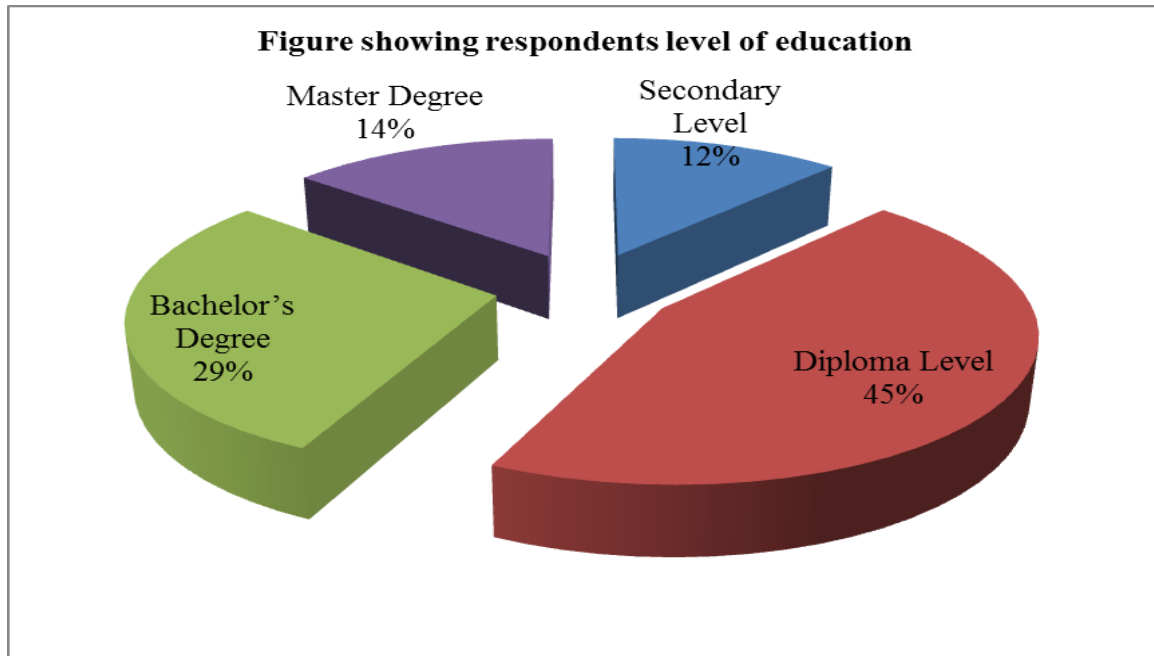
60% followed by manufacturing sector at 28% while the service sector were representing 12% of the respondents. This shows that the majority of the respondents were from the trade sector that represented more than a half of the people who participated in the study.

Table 4.5: Table showing respondents level of education

Variable	F (n)	Percentage
Secondary Level	14	12%
Diploma Level	54	45%
Bachelor's Degree	35	29%
Master Degree	17	14%
Total	120	100

As shown in table 4.5 respondents were asked to indicate their highest level of education and the responses were as following majority of the respondents had attained diploma education level at 45%, those who had attained Bachelor's degree were 29% while master level were at 14% and Secondary level were 12%.

Figure 4.5: Figure showing respondents level of education



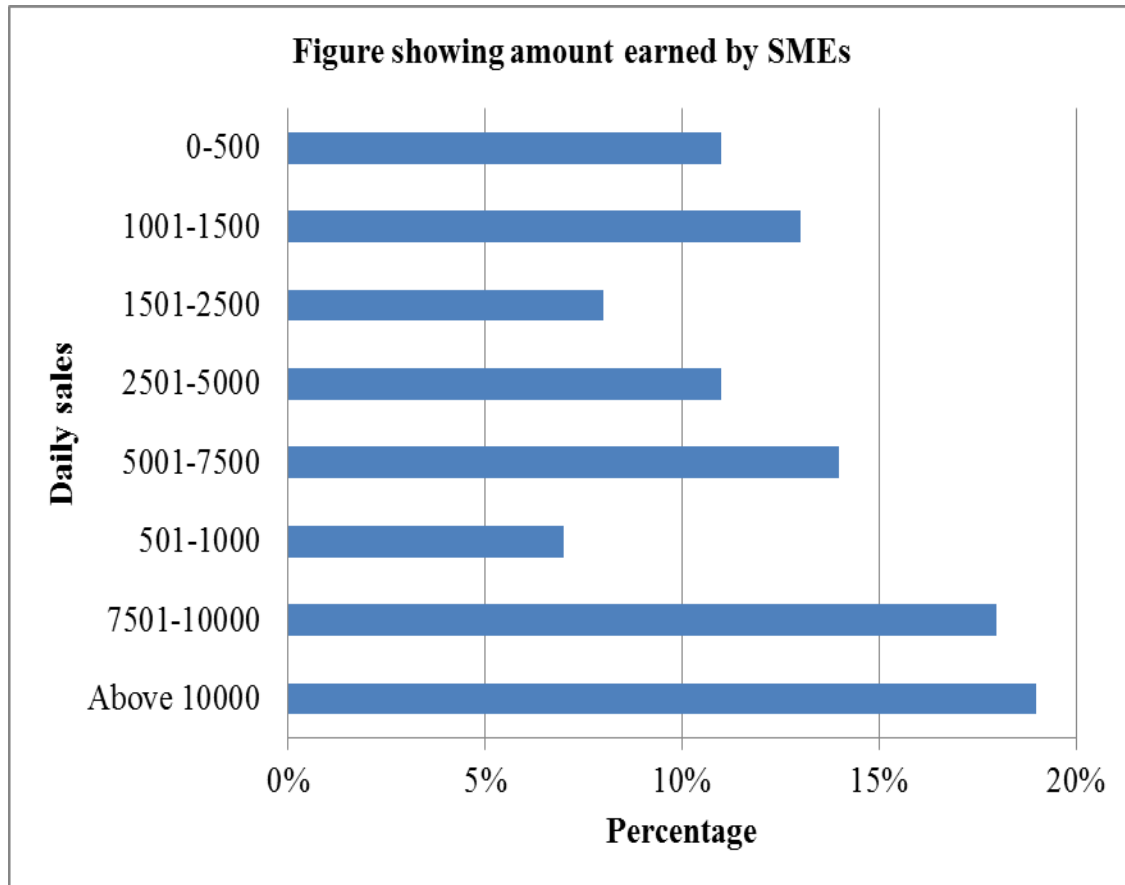
As shown in table 4.5 and illustrated in figure 4.5 respondents were asked to indicate their highest level of education and the responses were as following majority of the respondents had attained diploma education level at 45%, those who had attained Bachelor's Degree were 29% while master level were at 14% and Secondary level were 12%. This can be interpreted that most if not all of the respondents were in a position to respond to research study questions as outlined in the questionnaires. As the study established that majority of the respondents had attained college level of education.

Table 4.6: Table showing amount earned by SMEs

Statements	Frequency	Percent
0-500	13	11%
501-1000	8	7%
1001-1500	15	13%
1501-2500	10	8%
2501-5000	13	11%
5001-7500	17	14%
7501-10000	21	18%
Above 10000	22	19%
Total	119	100

As shown in table 4.6 respondents were required to indicate their daily sales as per the scale provided. Majority of the respondents at 19% indicated that their daily sales are above 10,000, 18% earned between 7501-10,000, 14% earned between 5001-7500, 13% earned between 1001-1500, 11% earned between 2501-5000, another 11% earned between 0-500, 8% indicated to earn between 1501-2500, while the remaining 7% indicated to earn between 501-1000.

Figure 4.6: Figure showing amount earned by SMEs



As in figure 4.6 respondents were required to indicate their daily sales as per the scale provided. Majority of the respondents at 19% indicated that their daily sales are above 10,000, 18% earned between 7501-10,000, 14% earned between 5001-7500, 13% earned between 1001-1500, 11% earned between 2501-5000, another 11% earned between 0-500, 8% indicated to earn between 1501-2500, while the remaining 7% indicated to earn between 501-1000. This implies that the SMEs were making since majority earned above 10,000.

4.1.2 Presentation of Study Variables

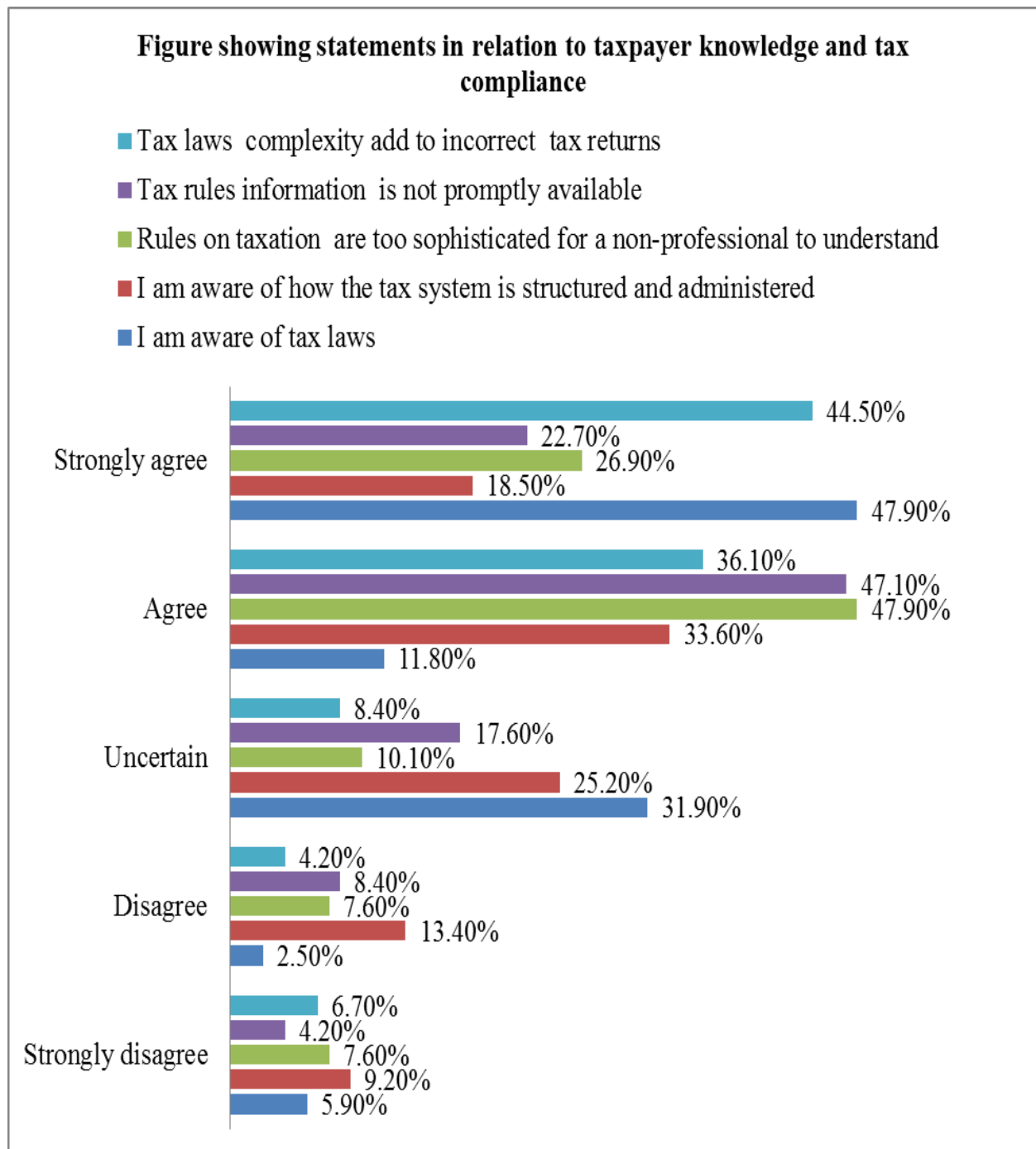
Taxpayer Knowledge and Tax Compliance

Table 4.7: Table showing statements in relation to taxpayer knowledge and tax compliance

Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree	Mean	Standard Deviation
I am aware of tax laws	5.90%	2.50%	31.90%	11.80%	47.90%	3.93	1.2
I am aware of how the tax system is structured and administered	9.20%	13.40%	25.20%	33.60%	18.50%	3.39	1.2
Rules on taxation are too sophisticated for a non-professional to understand	7.60%	7.60%	10.10%	47.90%	26.90%	3.79	1.15
Tax rules information is not promptly available	4.20%	8.40%	17.60%	47.10%	22.70%	3.76	1.03
Tax laws complexity add to incorrect tax returns	6.70%	4.20%	8.40%	36.10%	44.50%	4.08	1.14
Average						3.8	1.1

As shown in table 4.7 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with taxpayer knowledge with relation to tax compliance amongst SMEs in Naivasha Sub-County. The first statement asked was if respondents are aware of tax laws the responses were as follows 47.9% strongly agreed, 11.8% agreed, 31.9% were uncertain while 5.9% disagreed and 2.5% strongly disagreed. The second issue asked was if they were aware of how the tax system is structured and administered and the responses were as follows 9.2% of the respondent strongly disagreed, 13.4% disagreed while 25.2% were uncertain, 33.6% agreed and 18.5% strongly agreed. The third view sort was if rules on taxation are too sophisticated for a non-professional to understand 7.6% strongly disagreed, 7.6% disagreed, 10.1% were uncertain and 47.9% agreed while 26.9% strongly agreed. The fourth issue raised was if tax rules information is not promptly available 4.2% of the respondents strongly disagreed, 8.4% disagreed, 17.6% were uncertain and 47.1% agreed while 22.7% strongly agreed. The fifth and the final issue raised was if tax laws complexity add to incorrect tax returns 6.7% of the respondents strongly disagreed, 4.2% disagreed, 8.4% were uncertain while 36.1% agreed and 44.5% strongly agreed. The results show the average mean of 3.8 with a standard deviation of 1.1 this shows that most of the respondents conquered with the statements raised by the study.

Figure 4.7: Figure showing statements in relation to taxpayer knowledge and tax compliance



As shown in figure 4.7 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with taxpayer knowledge with relation to tax compliance amongst SMEs in Naivasha Sub-County. The responses were as follows 59.7 of

the respondents agreed that they are aware of tax laws; while 52.1% of the respondents were in agreement that they are aware how the tax system is administered and structured, 74.8% of the respondents agreed that rules on taxation are too sophisticated for a non-professional to understand, 69.8% of the respondents agreed that tax rules information is not promptly available, 80.6% of the respondents agreed that tax laws complexity add to incorrect tax returns. The results show the average mean of 3.8 with a standard deviation of 1.1 this shows that most of the respondents conquered with the statements raised by the study.

The findings are consistent with what a studies by Adesina and Obazee (2016) that had established that taxation information, fines and assessment compliance in Nigerian SMEs scale endeavors. Their findings established that tax learning had positively huge effect on tax compliance while taxation penalties had inconsequential positively effect on assesses compliance. Prescription that legislature ought to energize taxpayers information about assessment laws and standards in this way making mindfulness for the common advantages of the administration and the taxpayers. Machogu and Amayi (2013) directed examination on impact of taxpayer instruction on intentional tax compliance, amongst SMEs in Mwanza city, Tanzania. Examination looked to build up impact of taxpayer instruction on intentional tax compliance, amongst SMEs in City of Mwanza -Tanzania. In particular, investigation sets up level of taxpayers training among SMEs, the level of deliberate tax compliance amongst SMEs and impact of taxpayer instruction on level of intentional tax compliance, amongst business visionaries in Mwanza City. A cross-sectional descriptive research configuration was utilized. Both essential and auxiliary information were gathered utilizing poll. 85percent of respondents, confessed to have increased comprehension on essential tax laws and methodology, whereas 15 percent demonstrated no change in understanding fundamental tax laws. 78.7 percent of respondents concurred that through taxpayer training, they had possessed capacity to comprehend and wind up noticeably mindful of their taxpayer rights and commitments.

Tax Rates and Tax Compliance

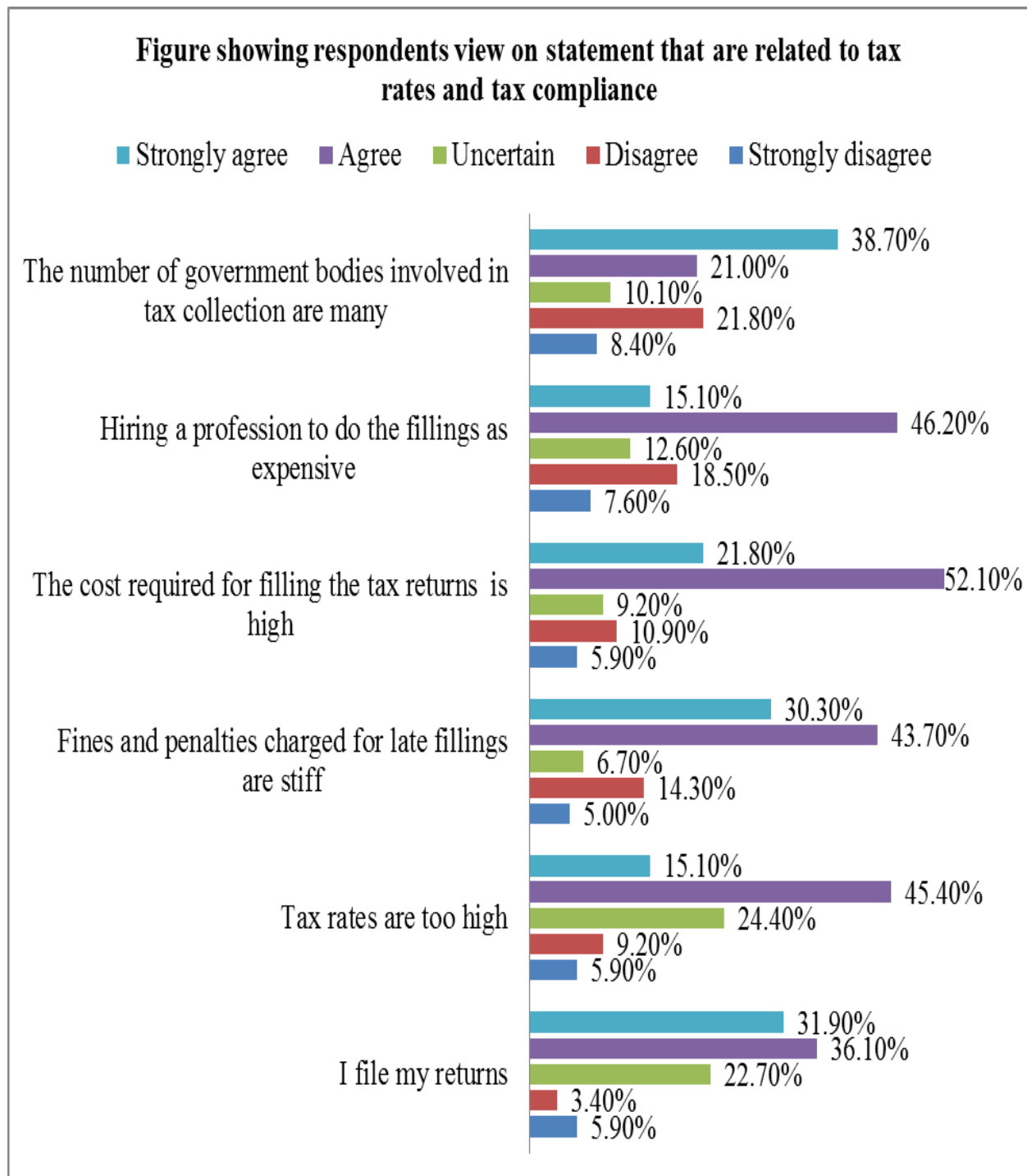
Table 4.8: Table showing respondents view on statement that are related to tax rates and tax compliance

Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree	Mean	Standard Deviation
I file my returns	5.90%	3.40%	22.70%	36.10%	31.90%	3.85	1.09
Tax rates are too high	5.90%	9.20%	24.40%	45.40%	15.10%	3.55	1.05
Fines and penalties charged for late fillings are stiff	5.00%	14.30%	6.70%	43.70%	30.30%	3.8	1.17
The cost required for filling the tax returns is high	5.90%	10.90%	9.20%	52.10%	21.80%	3.73	1.1
Hiring a profession to do the fillings as expensive	7.60%	18.50%	12.60%	46.20%	15.10%	3.43	1.18
The number of government bodies involved in tax collection are many	8.40%	21.80%	10.10%	21.00%	38.70%	3.6	1.4
Average						3.7	1.2

As tabulated in table 4.8 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with tax rate with relation to tax compliance amongst SMEs in Naivasha Sub-County. The responses were as following for the first view sought was if respondents file their returns 5.9% of the respondents strongly disagreed

, 3.4% disagreed, 22.7% were not certain while 36.1% agreed and 31.9% strongly agreed. The second view sought was if tax rates are too high and 5.9% of the respondents strongly disagreed, 9.2% disagreed, 24.4% were uncertain, and 45.4% agreed while 15.1% strongly agreed. The third question raised was if fines and penalties charged for late filings are stiff and the responses were as follows 5% of the respondents strongly disagreed, 14.3% disagreed, while 6.7% were uncertain, 43.7% agreed and 30.3% strongly agreed. The fourth statement asked was if the cost required for filling the tax returns is high and 5.9% of the respondents strongly disagreed, 10.9% disagreed, 9.2% were uncertain while 52.1% agreed while 21.8% strongly agreed. The fifth statement inquired was if hiring a profession to do the filings as expensive and 7.6% of the respondents strongly disagreed, 18.5% disagreed, 12.6% were uncertain while 46.2% agreed and 15.1% strongly agreed. The fifth statement inquired was if the numbers of government bodies involved in tax collection are many and 8.4% of the respondents strongly disagreed, 21.8% disagreed, 10.1% were uncertain and 21 % agreed while 38.7% strongly agreed. The statements scored a mean of 3.7 with a standard deviation of 1.1 that implies that the respondents were in agreement with the statements raised in the study.

Figure 4.8: Figure showing respondents view on statement that are related to tax rates and tax compliance



As shown in figure 4.8 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with tax rate with relation to tax compliance amongst SMEs in Naivasha Sub-County. The responses were as following 68% agreed that they file they returns, 60. 5% agreed that the rates changed on taxes are extremely high 74% agreed that fines and penalties charged for late fillings are stiff, 73.9% of the respondents agreed that the cost required for filling the tax returns is high, 61.3% of the respondents agreed that tax laws complexity add to incorrect tax returns, 59.7% of the respondents agreed that the number of government bodies involved in tax collection are many. The statements scored a mean of 3.7 with a standard deviation of 1.1 that implies that the respondents were in agreement with the statements raised in the study. Osambo (2009) asserts that expansion in tax rates prompts higher development, appropriation and offering costs which prompt higher costs and accordingly customers change their purchasing conduct. Individuals respond to the higher costs by purchasing less of the item. At the point when deals fall, manufacturers cut back on generation and a few specialists may lose their employments. The profitable assets i.e. land; capital, work and business are designated to different enterprises or go unused.

Filing Procedure and Tax Compliance

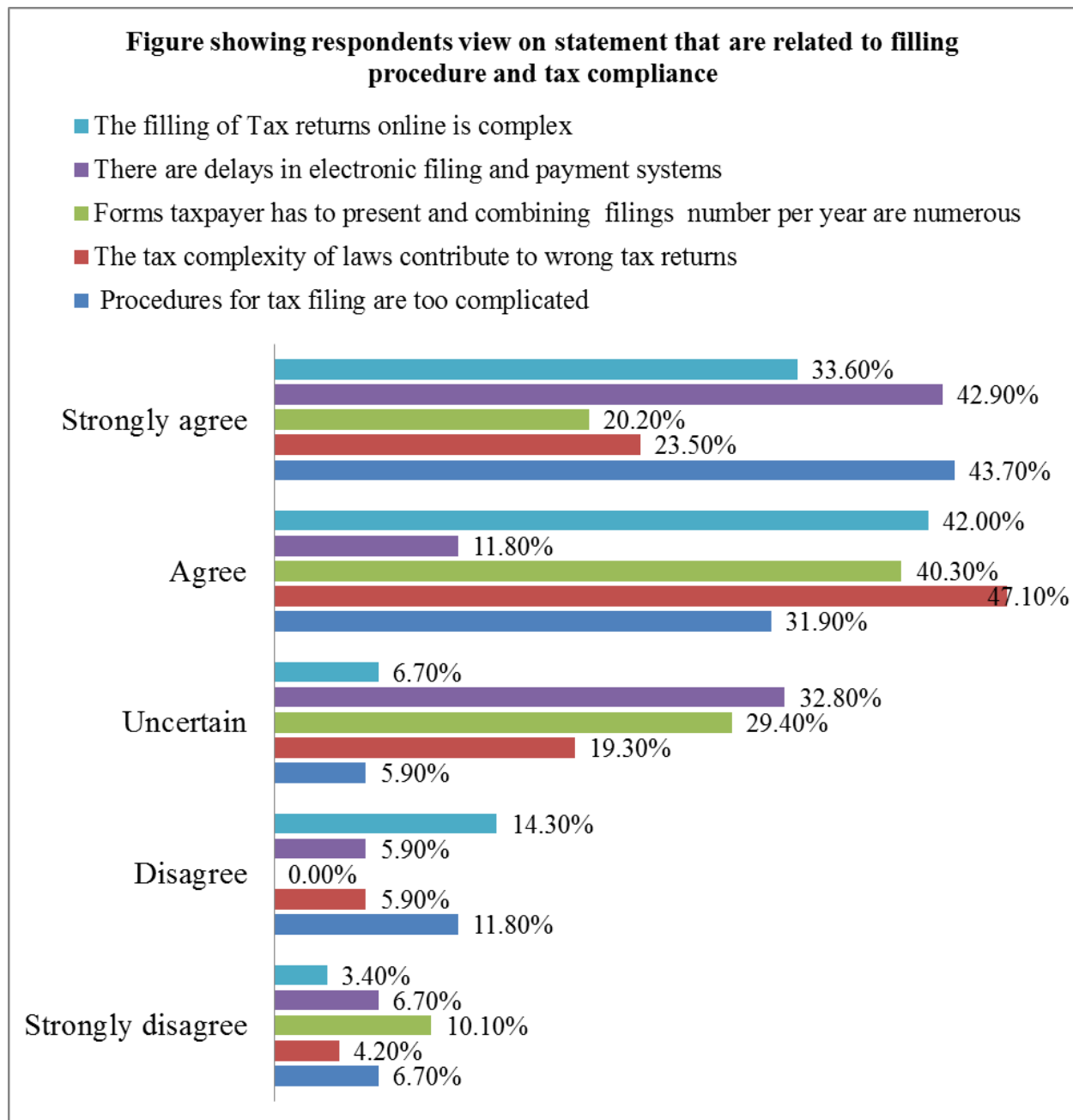
Table 4.9: Table showing respondents view on statement that are related to filing procedure and tax compliance

Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree	Mean	STD Dev
Procedures for tax filing are too complicated	6.70%	11.80%	5.90%	31.90%	43.70%	3.94	1.26
The tax complexity of laws contribute to wrong tax returns	4.20%	5.90%	19.30%	47.10%	23.50%	3.8	1.00
Forms taxpayer has to present and combining filings number per year are numerous	10.10%	0.00%	29.40%	40.30%	20.20%	3.61	1.12
There are delays in electronic filing and payment systems	6.70%	5.90%	32.80%	11.80%	42.90%	3.78	1.25
The filling of Tax returns online is complex	3.40%	14.30%	6.70%	42.00%	33.60%	3.88	1.13
Average						3.8	1.2

As tabulated in table 4.8 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with filling procedure with relation to tax compliance amongst SMEs in Naivasha Sub-County. The responses were as follows for the statements that the study sought the respondents to answer, the first question asked was if procedures for tax filing are too complicated and the responses were as follows 6.7% of the respondents strongly disagreed, 11.8% disagreed, 5.9% were uncertain and 31.9% strongly agreed while 43.7% strongly agreed. The second issue raised was if the tax complexity of laws contributes to wrong tax returns and 4.2% of the respondents strongly disagreed, 5.9% disagreed while 19.3% were uncertain, 47.1% agreed and 23.5% strongly agreed. The third issue asked was if forms taxpayer has to present and combining filings number per year are numerous and 10.1% of the respondents strongly disagreed, 29.4% were uncertain while 40.3% strongly agreed and 20.2% strongly agreed.

The forth statement the study sought was if there are delays in electronic filing and payment systems and 6.7% of the respondents strongly disagreed, 5.9% disagreed, 32.8% were uncertain while 11.8% agreed and 42.9% strongly agreed and the final statement sought in relation to this variable was if the filling of tax returns online is complex and the responses were as follows 3.4% of the respondents strongly disagreed, 14.3% disagreed while 6.7% were uncertain, 42% agreed and 33.6% strongly agreed.

Figure 4.9: Figure showing respondents view on statement that are related to filling procedure and tax compliance



As shown in figure 4.8 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with filling procedure with relation to tax compliance amongst SMEs in Naivasha Sub-County. The responses were as following 75.6% agreed that the procedure of filling tax procedures for tax filing are too complicated, 70.6%

agreed that tax complexity and laws that govern taxation contribute in poor or missing tax compliance, 60.5% of the respondents agreed that forms taxpayer has to present and combining filings number per year are numerous, 54.7% of the respondents agreed that there are delays in electronic filing and payment systems, 75.6% of the respondents agreed that the filling of tax returns online is complex. The statements scored a mean of 3.7 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study.

The study findings are in agreement with other study conducted such as study by Makanga that was conducted in 2010 that established that adoption of technology enhances tax compliances especially for large tax payers and technology is a vital part and parcel of growth of organization and tax payers should embrace technology in order to enhance efficiency in tax compliance. Another study by Muita (2010) established that for effective online filling the tax payer require skills and proper infrastructure is required and conducive business operating environment. Tax compliance methodology incorporates every single formal system and related exercises that taxpayers need to see to conform to tax commitments. Tax commitments are ordered into four classes: Registration in the framework, timely documenting or lodging of the required tax collection data, detailing complete and exact data (counting great recordkeeping), and Payment of tax on time according to the necessity of the law. Financial speculations on tax assessment holds that, taxpayers are flippant utility amplify and affected by monetary thought processes, for example, benefit expansion, in this manner, they examine elective compliance ways for example regardless of whether to dodge tax.

Accountability and Tax Compliance

Table 4.10: Table showing respondents view on statement that are related to accountability and tax compliance

	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree	Mean	Standard Deviation
Statement							
Low level of accountability and transparency in the use of public resources creates distrust of the tax system	7.60%	12.60%	21.80%	24.40%	33.60%	3.64	1.27
Misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion	7.60%	10.10%	22.70%	29.40%	30.30%	3.65	1.23
Lack of rule of law reduces the transparency of public institutions and fosters distrust among the citizens thus affecting citizens' willingness to pay tax	7.60%	2.50%	30.30%	30.30%	29.40%	3.71	1.14
Taxpayers will be more compliance if government use tax monies wisely by getting benefits for the taxes paid in terms of public goods and social	8.40%	13.40%	16.80%	37.00%	24.40%	3.55	1.23

amenities

Tax payers are apprehensive of
the need for paying taxes when
governments are not
accountable.

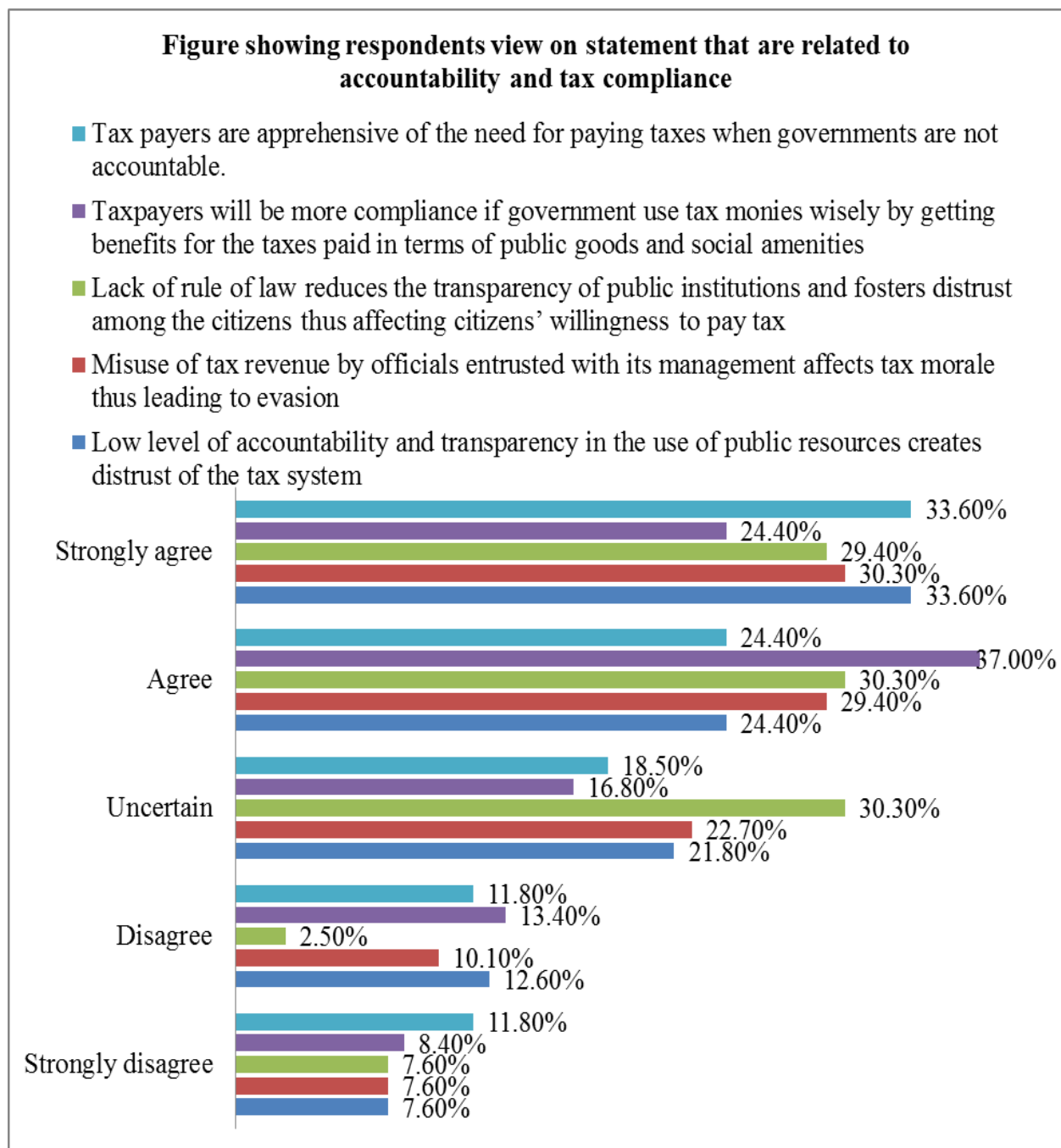
11.8% 11.80% 18.50% 24.40% 33.60% 3.56 1.37

Average

3.6 1.2

As tabulated in table 4.10 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with accountability with relation to tax compliance amongst SMEs in Naivasha Sub-County. The first statement sought was if low level of accountability and transparency in the use of public resources creates distrust of the tax system and 7.6% of the respondents strongly disagreed, 12.6% disagreed, 21.8% were uncertain while 24.4% agreed and 33.6% strongly agreed. The second statement sought was if misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion and 7.6% of the respondents strongly disagreed, 10.1% disagreed while 22.7% were uncertain, 29.4% agreed and 30.3% strongly agreed. The third statement sought was if lack of rule of law reduces the transparency of public institutions and fosters distrust among the citizens thus affecting citizens' willingness to pay tax and 7.6% of the respondents strongly disagreed, 2.5% disagreed and 30.3% were both uncertain and strongly agreed while 29.4% strongly disagreed. The forth statement the study sought was if taxpayers will be more compliance if government use tax monies wisely by getting benefits for the taxes paid in terms of public goods and social amenities and 8.4% of the respondents strongly disagreed, 13.4% while 16.8% were uncertain, 37% agreed and 24.4% strongly agreed. The fifth statement that the study sought to find responses to was if tax payers are apprehensive of the need for paying taxes when governments are not accountable and both 11.8% strongly disagreed and disagreed, 18.5% were uncertain while 24.4% agreed and 33.6% strongly agreed.

Figure 4.10: Figure showing respondents view on statement that are related to accountability and tax compliance



As shown in figure 4.10 respondents were required to indicate their views using a five point licket scale to respond to statements that were asked in line with accountability with relation to tax compliance amongst SMEs in Naivasha Sub-County. The responses were as following 58%

agreed that low level of accountability and transparency in public resource management affects tax compliance while most of the SMEs tend to shy away from tax accountability, 59.7% agreed with the statement that misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion, 59.7% of the respondents agreed that inadequate laws that promote transparency and this determines taxpayers ability to pay taxes, 58% of the respondents agreed that Tax payers are apprehensive of the need for paying taxes when governments are not accountable. The statements scored a mean of 3.7 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study.

The study findings are in line with other findings such as study by Isa (2012) that established that tax unpredictability is another detectable significance of taxpayers compliance factor impacting compliance conduct and it might be beginning of avoiding tax Moreover, Isa (2012) focused that tax laws are excessively confounded for taxpayer', making it impossible to keep side by side thinking about the regular change in tax law.

Tax Compliance

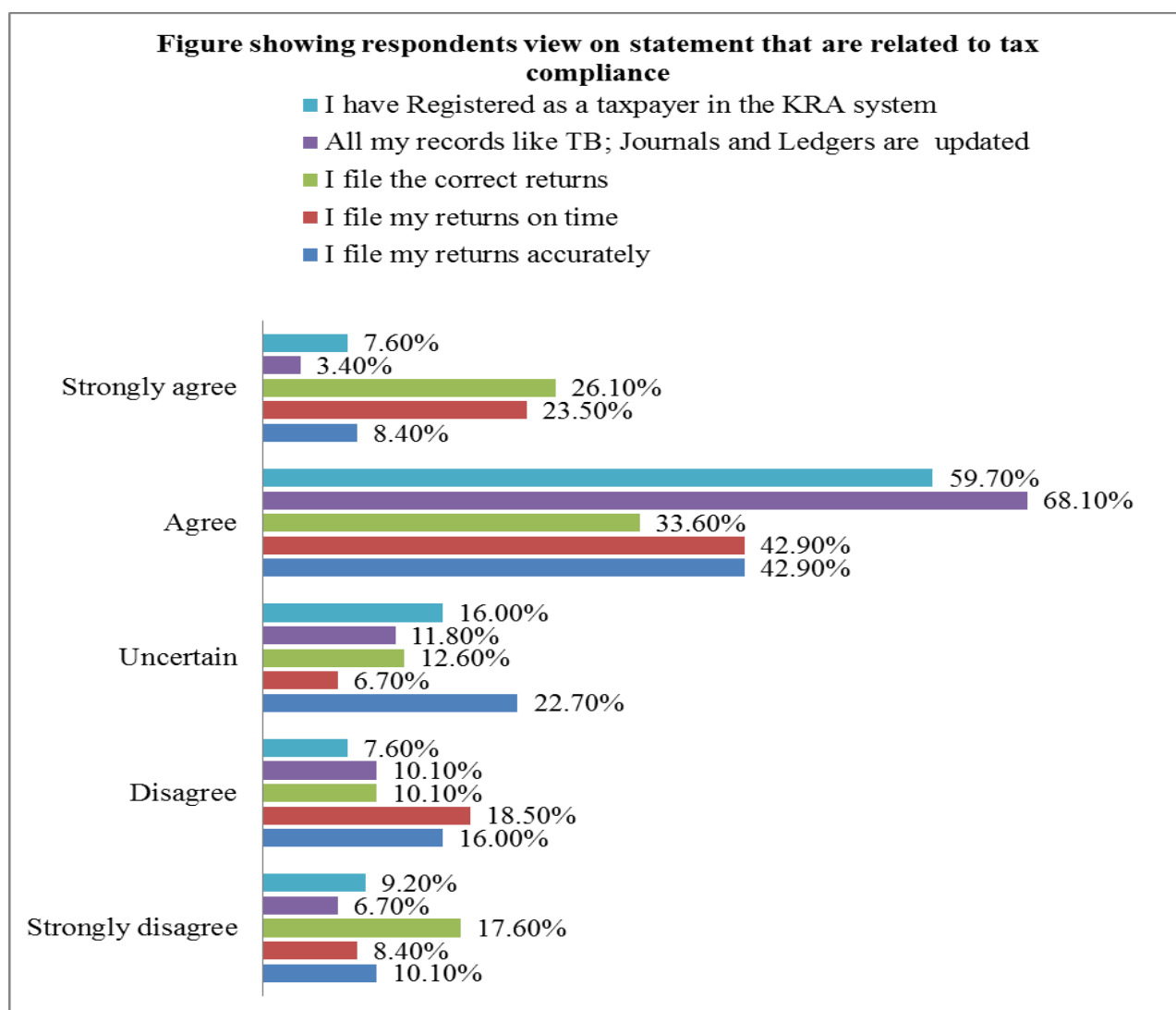
Table 4.11: Table showing respondents view on statement that are related to tax compliance

Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree	Mean	Standard Deviation
I file my returns accurately	10.10%	16.00%	22.70%	42.90%	8.40%	3.24	1.13
I file my returns on time	8.40%	18.50%	6.70%	42.90%	23.50%	3.55	1.27
I file the correct returns	17.60%	10.10%	12.60%	33.60%	26.10%	3.4	1.43
All my records like TB; Journals and Ledgers are updated	6.70%	10.10%	11.80%	68.10%	3.40%	3.51	0.96
I have Registered as a taxpayer in the KRA system	9.20%	7.60%	16.00%	59.70%	7.60%	3.49	1.06
Average						3.4	1.2

As tabulated in table 4.11 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with tax compliance amongst SMEs in Naivasha Sub-County. The responses were as following on the first statement that the study inquired was if respondent file their returns accurately and the responses were as follows 10.1% of the respondents strongly disagreed, 16% of them disagreed while 22.7% were uncertain, 42.9% agreed and 8.4% strongly agreed. The second issue the study inquired was if the respondents file their returns on time and 8.4% of the respondents strongly disagreed while 18.5% of them just disagreed, 6.7% were uncertain and 42.9% agreed, 23.5% strongly agreed. The third issues raised was if the respondents file the correct returns and 17.6% strongly

disagreed , 10.1% disagreed, 12.6% were uncertain, while 33.6% agreed and 26.1% strongly agreed. The fourth statement inquired was if all the respondent records like TB; Journals and Ledgers are updated and 6.7% of the respondents strongly disagreed, 10.1% of them disagreed while 11.8% were certain, 68.1% agreed and 3.40% strongly agreed and finally the last statement that study inquired was if respondents have registered as a taxpayer in the KRA system 16.8% had not registered while 16 % were uncertain and 67.3% indicated they have registered with tax system. The statements scored a mean of 3.4 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study.

Figure 4.11: Figure showing respondents view on statement that are related to tax compliance



As in figure 4.11 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with tax compliance amongst SMEs in Naivasha Sub-County. The responses were as following 51.3% agreed that they file their returns accurately, 66.4% agreed with the statement that I file my returns on time, 59.7% of the respondents agreed that they file the correct returns, 71.5% of the respondents agreed that all my records like TB; Journals and Ledgers are updated, 67.3% of the respondents agreed that I have registered as a taxpayer in the KRA system. The statements scored a mean of 3.4 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study.

On a five-point scale, the average mean of the responses was 3.4 which mean that majority of the respondents were agreeing with most of the statements; however, the answers were varied as shown by a standard deviation of 1.2. The study finding concurs with findings of Adebayo (2017) on the effect of accountability and transparency on tax returns in Nigeria and found out that tax accountability and transparency with greater emphasis on the various kinds of taxes such as firm's income tax, individual income tax, value added tax, petroleum profit tax and stamp duties is perceived to have a direct correlation with the Gross Domestic Product (GDP). It is believed that if potent mechanism is put in place more tax returns might be generated and where the government reciprocates this by way of qualitative governance appreciable compliance might ensue at the end of the day.

4.1.3.1 Inferential Statistics

The study used inferential analysis to establish the relation of study variables and the generation of results based on correlation, model that is suitable for the study and variance analysis and coefficients of regression.

4.1.3.2 Correlation Analysis

Table 4.12: Table showing correlation matrix

Variable		Tax compliance	Tax knowledge	Tax rates	Filing procedures	Accountability
Tax compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
Tax knowledge	Pearson Correlation	.546*	1			
	Sig. (2-tailed)	0.003				
Tax rates	Pearson Correlation	.639**	0.11	1		
	Sig. (2-tailed)	0.000	0.235			
Filing procedures	Pearson Correlation	.543**	0.172	.546**	1	
	Sig. (2-tailed)	0.000	0.061	0.000		
Accountability	Pearson Correlation	.522**	0.057	.554**	.642**	1
	Sig. (2-tailed)	0.000	0.54	0.000	0.000	

As tabulated in table 4.12 the correlation analysis. The findings shows that taxpayer knowledge and tax compliance have a positive relation at ($r=.546$; $p=.000$). The finding further shows that tax rates and tax compliance have a significant and positive relations of ($r=.639$; $p=.000$) while filling procedure had a positive relation of ($r=.543$; $p=.000$) and accountability showed a significant relationship with tax compliance ($r=.522$; $p=.000$). This shows that an increase in any variable unit may lead to tax compliance.

4.1.3.3 Regression Analysis

The findings in table 4.11 indicate the model that is fit for regression that describes the study occurrences. The tax compliance was found to be determined by taxpayer's knowledge, tax fillings, procedures and accountability that are supported by coefficient that is R square of 47.5% that explains study variables (taxpayer's knowledge, tax fillings, procedures and accountability) of the variation of the dependent variable that is tax compliance. The study findings further explain that the model applied to link the study variables were satisfactory.

Table 4.12: Table showing Model fitness

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.689a	0.475	0.457	0.58127
a Predictors: (Constant), Accountability, Tax knowledge, Tax rates, Filling procedures				

The significant testing of the p Value shows that the level of relation of the study independent variables to the dependent variable. If the study could have established a less than the critical value that is referred to as probability value (p) that is statistically set at level 0.05, and the conclusion would be that the model is significant in explaining the relationship if not the model would be treated as non-significant.

The ANOVA analysis shows that the overall model was statistically significant and the results further show that the independent variables are good predictors of tax compliance as this supported by F statistic of 25.807 and the reported p value (0.000) with less than conventional probability of 0.05 significant level.

Table 4.13: Table showing Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.878	4	8.719	25.807	.000b
Residual	38.517	114	0.338		
Total	73.395	118			

As shown in table 4.13 the regression of coefficients indicate that taxpayer knowledge and tax compliance have a positive and significantly related at ($r=.345$; $p=.000$). The finding further shows that tax rates and tax compliance have a significant and positive relations of ($r=.433$; $p=.000$) while filling procedure had a positive relation of ($r=.203$; $p=.021$) and accountability showed a significant relationship with tax compliance ($r=.198$; $p=.030$).

Table 4.14: Table showing Regression of coefficients

	B	Std. Error	t	Sig.
(Constant)	0.902	0.388	2.327	0.022
Tax knowledge	0.345	0.081	4.259	0.000
Tax rates	0.433	0.082	5.26	0.000
Filling procedures	0.203	0.087	2.35	0.021
Accountability	0.198	0.068	2.911	0.030

The optimal model was therefore;

Multiple regressions generated will be as follows

$$Y = .902 + .345X_1 + .433X_2 + .203X_3 + .198X_4$$

Where:

Y=Tax compliance

X₁=Tax payer knowledge

X₂=Tax rates

X₃=Filling procedures

X₄=Accountability

4.2 Limitations of the study

The idea of the investigation calls for secret data identified with the SMEs. Respondents may feel interfered when asked for to complete a poll which expects them to unveil such data. With a specific end goal to moderate this deficiency the respondents were guaranteed of classification and moral treatment of the data. The constraint of suspicion facilitated poor cooperation from respondents. Occasionally, the research encountered respondent who did not cooperate. The researcher also anticipates that respondents may not be willing to give out unbiased information due to fear of victimization. The above limitations was addressed by the researcher who personally talk to the respondents and explain that the research is purely for academic purposes

and the identity of the respondents would not be revealed under any circumstance and the management is aware about the research.

4.3 Chapter Summary

The research study distributed a total of 142 questionnaires and a total of 120 were fully filled up and were used for analysis in the study. The section of the study research focused on the study finding, presentations and discussions. Data that was gathered from the study survey has been analyzed using SPSS and descriptive statistics and presentations are illustrated in tables and figures. Majority of the respondents were male that were slightly higher above their female respondents. Most of the respondents were above 30 years old, most of the respondents operated under the trade sector that were more than a half of the respondents and for the highest education level most of the respondents had attained above collage level of education and finally the most of the indicated the make a daily sale of Ksh 10,000. The tax compliance was found to be determined by taxpayer's knowledge, tax fillings, procedures and accountability that are supported by coefficient that is R square of 47.5% that explains study variables (taxpayer's knowledge, tax fillings, procedures and accountability) of the variation of the dependent variable that is tax compliance. The study findings further explain that the model applied to link the study variables was satisfactory.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this section of the chapter the study has outlines the summary of the research findings, study recommendations, conclusion and areas for further study that are established based on the main study objective who's aim was to determine the factors that affect tax compliance among SMEs in Naivasha Sub-County with reference to Naivasha sub County as reference case.

5.1 Summary of the Findings

The research study distributed a total of 142 questionnaires and a total of 120 were dully filled up and were used for analysis in the study. Majority of the respondents were male that were slightly higher above their female respondents. Most of the respondents were above 30 years old, most of the respondents operated under the trade sector that were more than a half of the respondents and for the highest education level most of the respondents had attained above collage level of education and finally the most of the indicated the make a daily sales of Ksh 10,000.

5.1.1 Taxpayers knowledge and Tax Compliance

The study aimed at determining the effects of tax compliance among the SMEs and the study established that there is a positive and significant relationship between taxpayers knowledge and tax compliance among the SMEs in Naivasha Sub-County. The study also established that tax knowledge among the tax players leads to tax compliance among the SMEs owners. The responses were as follows 59.7 of the respondents agreed that they are aware of tax laws; while 52.1% of the respondents were in agreement that they are aware how the tax system is administered and structured, 74.8% of the respondents agreed that rules on taxation are too sophisticated for a non-professional to understand, 69.8% of the respondents agreed that tax rules information is not promptly available, 80.6% of the respondents agreed that tax laws complexity add to incorrect tax returns. The findings are consistent with what a studies by Adesina and Obazee (2016) that had established that taxation information, fines and assessment compliance in Nigerian SMEs scale endeavors. Their findings established that tax learning had positively huge

effect on tax compliance while taxation penalties had inconsequential positively effect on assesses compliance. Prescription that legislature ought to energize taxpayers information about assessment laws and standards in this way making mindfulness for the common advantages of the administration and the taxpayers. Understanding and interpreting tax laws determines SMEs ability and willingness to comply. Attitudes towards tax compliance can be improved through enhancement of taxation understanding, when SMEs have a positive attitude in comparison with one who have never attended any tax related course workshop, or seminar awareness necessary important especially in areas that relate to taxation laws.

5.1.2 Tax Rates and Tax Compliance

The study also aimed at determining the effects of tax rate on tax compliance among the SMEs in Naivasha Sub-County. The study established that tax rates have significant and positive relations with tax compliance and it affects tax compliance among SMEs. The study also established that tax rates determine the level of tax compliance among the SMEs.. The responses were as following 68% agreed that they file they returns, 60. 5% agreed that the rates changed on taxes are extremely high 74% agreed that fines and penalties charged for late fillings are stiff, 73.9% of the respondents agreed that the cost required for filling the tax returns is high, 61.3% of the respondents agreed that tax laws complexity add to incorrect tax returns, 59.7% of the respondents agreed that the number of government bodies involved in tax collection are many. The statements scored a mean of 3.7 with a standard deviation of 1.1 that implies that the respondents were in agreement with the statements raised in the study. The study findings are supported with similar studies by Osambo (2009) asserts that expansion in tax rates prompts higher development, appropriation and offering costs which prompt higher costs and accordingly customers change their purchasing conduct. Individuals respond to the higher costs by purchasing less of the item. At the point when deals fall, manufacturers cut back on generation and a few specialists may lose their employments. The profitable assets i.e. land; capital, work and business are designated to different enterprises or go unused.

5.1.3 Filling Procedure and Tax Compliance

The study third variable was to determine and establish the effect of filling procedure affects tax compliance among the SMEs in Naivasha Sub-County. The study established that there is a positive and significant relationship between filling procedure and tax compliance among SMEs.

The study also established that tax fillings procedure determines tax compliance level among SMEs in Naivasha Sub-County. The responses were as following 75.6% agreed that the procedure of filling tax procedures for tax filing are too complicated, 70.6% agreed that tax complexity and laws that govern taxation contribute in poor or missing tax compliance, 60.5% of the respondents agreed that forms taxpayer has to present and combining filings number per year are numerous, 54.7% of the respondents agreed that there are delays in electronic filing and payment systems, 75.6% of the respondents agreed that the filling of tax returns online is complex. The statements scored a mean of 3.7 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study. The study findings are in line with other findings such as study by Isa (2012) that established that tax unpredictability is another detectable significance of taxpayers compliance factor impacting compliance conduct and it might be beginning of avoiding tax. Moreover, Isa (2012) focused that tax laws are excessively confounded for taxpayer', making it impossible to keep side by side thinking about the regular change in tax law.

5.1.4 Tax Compliance

The study also aimed at establishing and determining the effects of accountability and tax compliance among SMEs in Naivasha Sub-County. The study established that there is significant and special relationship between accountability and tax compliance among SMEs. The study also established that accountability among SMEs leads to tax compliance. The responses were as following 58% agreed that low level of accountability and transparency in public resource management affects tax compliance while most of the SMEs tend to shy away from tax accountability, 59.7% agreed with the statement that misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion, 59.7% of the respondents agreed that inadequate laws that promote transparency and this determines taxpayers ability to pay taxes, 58% of the respondents agreed that Tax payers are apprehensive of the need for paying taxes when governments are not accountable. The statements scored a mean of 3.7 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study. The study finding concurs with findings of Adebayo (2017) on the effect of accountability and transparency on tax returns in Nigeria and found out that tax accountability and transparency with greater emphasis on the various kinds of taxes such as firm's income tax, individual income tax, value added tax, petroleum profit tax and stamp duties is perceived to

have a direct correlation with the Gross Domestic Product (GDP). It is believed that if potent mechanism is put in place more tax returns might be generated and where the government reciprocates this by way of qualitative governance appreciable compliance might ensue at the end of the day.

5.1.5 Tax Compliance

The study established that apart from income tax administration other factors that affect growth and performance are taxation from county government, business location and tax compliance. Most of the respondents were unsatisfied with the income tax rate based on the sales turn over and some of the respondents did not fully understand income tax and its computation. The study established that the introduction of income tax has affected the profit margins and the respondents agreed that income tax has negatively affected the growth and profitability of the SMEs. The responses were as following 51.3% agreed that they file their returns accurately, 66.4% agreed with the statement that I file my returns on time, 59.7% of the respondents agreed that they file the correct returns, 71.5% of the respondents agreed that all my records like TB; Journals and Ledgers are updated, 67.3% of the respondents agreed that I have registered as a taxpayer in the KRA system. The statements scored a mean of 3.4 with a standard deviation of 1.2 that implies that the respondents were in agreement with the statements raised in the study.

The study finding concurs with findings of Brown and Mazur (2003) explains tax compliance as a complex term to define because it's a multi-faceted measure. But they went further and define it in three aspects that include reporting, payment and filing compliance. According to Cummings (2007) tax evasion as the failure by taxpayer to comply with tax obligation, the complex on tax remittance is seen on the following perspectives; the details required are too much in terms tax rules involved especially when it comes to computerized aspect of tax compliance decision. Andreoni, Erard and Feinstein (1998) define tax compliance as willingness of taxpayer to obey tax laws in order for a country to obtain its economy equilibrium. Kircler (2007) also defines tax compliance as taxpayer's willingness to pay tax with outermost honesty.

According to William and Round (2009) tax penalties, inadequate understanding, high tax rates and high cost of compliances are some of the factors that lead to tax fraud and tax evasion. SMEs will fail to comply with tax laws either unwilling or willingly.

5.2 Conclusions

In conclusion the study has established that taxpayer's knowledge, tax rates, filling procedure have positive and significant relationship and affects tax compliance among SMEs in Naivasha Sub-County. The research has established that it is important to create awareness on tax laws, create awareness on how the tax system is structured and administered, have less sophisticated rules on taxation for a non-professional to understand, have readily available tax rules information so as encourage tax compliance. The study also concluded that Tax rates are too high, fines and penalties charged for late fillings are stiff, the cost required for filling the tax returns is high, hiring a profession to do the fillings as expensive and that The number of government bodies involved in tax collection are many and this has led to poor tax compliance.

The study also concluded that procedures for tax filing are too complicated, the tax complexity of laws contribute to wrong tax returns, Forms taxpayer has to present and combining filings number per year are numerous, there are delays in electronic filing and payment systems and that The filling of Tax returns online is complex therefore discourages tax compliance among the SMEs. Research study concluded that low level of accountability and transparency in the use of public resources creates distrust of the tax system, misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion, inadequate laws reduces the accountability in public institutions that affects the level of compliance among the taxpayers if the government uses the tax it collects for development and provision of quality services and Tax payers are apprehensive of the need for paying taxes when governments are not accountable hence the low level of tax compliance.

The study concluded that tax rates, PAYE, tax penalties and fines contribute greatly to tax compliance and finally tax compliance cost have the most significant influence on tax compliance. Tax threshold for SMEs should be reduced to a maximum of four tax returns per year and should have a possibility of moving it towards annual or after every six months and KRA should consider simplifying returns by regularly reviewing tax laws. The study concludes that tax compliance can be influenced by provision of tax payer education on the social responsibility for paying taxes and taxpayer's intention would be to comply. There are more gains in assisting compliant taxpayers in meeting their fiscal obligation instead of spending more

resources on a few non compliers. SMEs are able to understand tax obligation where there is tax benefits and tax benefits that are received in real time.

SMEs may decide not remit taxes at all due to the negative perception that tax system is unfair and they are overpaying taxes and the services that are provided by the government are not motivating. According to Porcano (2004) the significant determinant of tax payer willingness to pay tax is the perception they have on the fairness of the tax system. Richardson (2006) established in his study findings that perceived fairness plays an important role towards tax evasion. Reforms of the tax laws have turned the system into more complexes and this can be another reason for tax non-compliance. The complex on tax remittance is seen on the following perspectives; the details required are too much in terms tax rules involved especially when it comes to computerized aspect of tax compliance decision. For SMEs to enhance tax compliance the rules of taxation must be simple, clear and compressive in order to make computations at their own discretion. Generally the complex nature tax system increases as the tax laws become increase with time (Richardson, 2006).

Understanding and interpreting tax laws determines SMEs ability and willingness to comply. Attitudes towards tax compliance can be improved through enhancement of taxation understanding, when SMEs have a positive attitude in comparison with one who have never attended any tax related course workshop, or seminar awareness necessary important especially in areas that relate to taxation laws (Mohd, 2010). A study by Hite and Hasseldine (2001) established that tax authority should emphasize on offering tax courses because it will impact positively on understanding on compliance. Tax threshold for SMEs should be reduced to a maximum of four tax returns per year and should have a possibility of moving it towards annual or after every six months and KRA should consider simplifying returns by regularly reviewing tax laws. The study concludes that tax compliance can be influenced by provision of tax payer education on the social responsibility for paying taxes and taxpayer's intention would be to comply. There are more gains in assisting compliant taxpayers in meeting their fiscal obligation instead of spending more resources on a few non compliers. SMEs are able to understand tax obligation where there is tax benefits and tax benefits that are received in real time.

5.3 Recommendations

On taxpayer's knowledge and tax compliance the study recommends that tax payers learning ought to be emphasized since tax data, tax learning tends to advance tax compliance than tax organization. Thus legislature ought to through its organizations instruct the potential taxpayers on taxation laws and controls by coordinate free symposia and courses.

On tax rates and tax compliance the study recommends that tax rates should be reduced since expansion in tax rates prompts higher development, appropriation and offering costs which prompt higher costs and accordingly customers change their purchasing conduct. Also by reducing the taxes rates will purchase more.

On filling procedures and tax compliance the study recommends that tax laws should not be complex so as to not contribute to wrong tax returns, also lessen measure of time taken for organizations to round out various structures with comparative data, moreover reduce time taken holding up in ques to file returns and make installments in office that collects tax.

On accountability and tax compliance the study recommended there to be Tax accountability and transparency with greater emphasis on the various kinds of taxes such as firm's income tax, individual income tax, value added tax, petroleum profit tax and stamp duties since they are perceived to have a direct correlation with the Gross Domestic Product (GDP).

The study recommends that KRA should have an office in every county that will address tax issues at county level and the services to be offered should include tax penalties, filing of tax returns, tax computation and tax differentiation. KRA should also establish different deduction levels and apply the standard rate plan on the revenue turnover less standard deduction. KRA should continuously implement reforms on publicizing prosecution of non-compliant by providing incentives for voluntary compliance and the tax laws should be constantly reviewed to strengthen to seal loopholes that are being exploited by non-compliant SMEs. KRA should create more awareness on the tax compliance among SMEs through policy documentation which classify different SMEs entity.

KRA should regularly educate and train SMEs on tax related issues and modes of tax payment and collection. KRA should make the process of taxation as simple as possible so as to favour

the SMEs owner with little or no education to make the compliance easy for them. KRA should also regularly conduct training on tax education.

5.4 Suggestions for Further Studies

The main aim of the study was to analyze variables affecting tax compliance among SMEs in Naivasha Sub-County, case study of Naivasha town Central Business District (CBD). Therefore, further study should be carried out in East African countries to validate these findings and also have a comparison with what the current research has established. Moreover, the study was done in Kenya other studies should be conducted in additional countries to see if the variables used have any effect on tax compliance in other countries. Another study may be done using other variables such as legal framework, government regulation and government policy and their effect on tax compliance.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

THE MANAGEMENT UNIVERSITY OF AFRICA (MUA)

MML PROGRAMME

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Email: VC@mua.ac.ke

P.O. BOX 29677,

Nairobi, Kenya.

August, 2018

Nairobi.

TO WHOM IT MAY CONCERN

ROBIN MARIITA

Letter sets out to present person named above who is a MML understudy and is occupied with completing exploration on Analysis of the components influencing tax compliance amongst SMEs in Naivasha Sub-County.

Any help concurred to him in quest for this investigation will be enormously refreshing. The data is particularly for scholarly intention and will be taken with highest amount of secrecy.

A duplicate of exploration venture will be made accessible to you on request.

Yours dependably,

Robin Mariita Aondo

RESEARCHER

Ms.

SUPERVISOR

APPENDIX 11: RESEARCH STUDY QUESTIONNAIRE

A research examination on factors affecting tax compliance level amongst SMEs in Naivasha Sub-County.

This poll is implied for information gathering amid the investigation. The data is entirely for scholarly purposes and will be treated with the most elevated amount of honesty and classification.

It would be ideal if you finish the poll by choosing the right option () for the shut finished inquiries, and by composing your perspectives where asked for the open finished inquiries.

SECTION A: GENERAL INFORMATION

1. What is your gender?

Female []

Male []

2. What is your age in years?

Below 30 Years []

30-40 Years []

41-50 Years []

Above 50 Years []

3. In which sector is your enterprise?

Manufacturing []

Trade []

Services []

4. What is your highest level of education

Secondary Level []

Diploma level []

Bachelor's Degree Level []

Masters Level []

5. What is the total amount of money that you have at the end of the day from sales?

Between Kshs. 0-500 [] 501- 1,000 [] 1001-1,000 [] 1,001-1,500 []

1,501-2,500 [] 2,501- 5,000 [] 5,001- 7,500 [] 7,500- 10,000 []

10,0001 and above []

SECTION B: TAX KNOWLEDGE LEVEL

This section is concerned with determining impact of tax knowledge among the SMEs on tax compliance level

If you don't mind check (×) in the box which best depicts your level of concurrence or non-concurrence with announcement: Strength of announcements: Strongly Disagree=1, Disagree = 2, Uncertain=3, Agree=4 and Strongly Agree=5.

No.	Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1	I am aware of tax laws					
2	I am aware of how the tax system is structured and administered					
3	Rules on taxation are too sophisticated for a non-professional to understand					
4	tax rules information is not promptly available					
5	tax laws complexity add to incorrect tax returns					

SECTION C: TAX RATES

This part is concerned with determining effect of tax rates among the SMEs on tax compliance level

If you don't mind check (×) in the box which best depicts your level of concurrence or non-concurrence with announcement: Strength of announcements: Strongly Disagree=1, Disagree = 2, Uncertain=3, Agree=4 and Strongly Agree=5.

No.	Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1	I file my returns					
2	Tax rates are too high					
3	Fines and penalties charged for late fillings are stiff					
4	The cost required for filling the tax returns is high					
5	Hiring a profession to do the fillings as expensive					
6	The number of government bodies involved in tax collection are many					

SECTION D: FILLING PROCEDURES

Part is concerned with determining effect of filling procedures among the SMEs on tax compliance

If you don't mind check (×) in the box which best depicts your level of concurrence or non-concurrence with announcement: Strength of announcements: Strongly Disagree=1, Disagree = 2, Uncertain=3, Agree=4 and Strongly Agree=5.

No.	Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1	Procedures for tax filing are too complicated					
2	The tax complexity of laws contribute to wrong tax returns					
3	Forms taxpayer has to present and combining filings number per year are numerous					
4	There are delays in electronic filing and payment systems					
5	The filling of Tax returns online is complex					

SECTION E: ACCOUNTABILITY

Part is concerned with determining effect of tax payer's perception among the SMEs on tax compliance

If you don't mind check (×) in the box which best depicts your level of concurrence or non-concurrence with announcement: Strength of announcements: Strongly Disagree=1, Disagree = 2, Uncertain=3, Agree=4 and Strongly Agree=5.

No.	Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1	low level of accountability and transparency in the use of public resources creates distrust of the tax system					
2	misuse of tax revenue by officials entrusted with its management affects tax morale thus leading to evasion					
3	lack of rule of law reduces the transparency of public institutions and fosters distrust among the citizens thus affecting citizens' willingness to pay tax					
4	Taxpayers will be more compliance if government use tax monies wisely by getting benefits for the taxes paid in terms of public goods and social amenities					
5	Tax payers are apprehensive of the need for paying taxes when governments are not accountable.					

SECTION F: TAX COMPLIANCE LEVEL

If you don't mind check (×) in the box which best depicts your level of concurrence or non-concurrence with announcement: Strength of announcements: Strongly Disagree=1, Disagree = 2, Uncertain=3, Agree=4 and Strongly Agree=5.

No.	Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1	I file my returns accurately					
2	I file my returns on time					
3	I file the correct returns					
4	All my records like TB; Journals and Ledgers are updated					
5	I have Registered as a taxpayer in the KRA system					